

In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana ("Bond Counsel"), under existing laws, interest on the Series 2005 A Bonds (as hereinafter defined) is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2005 A Bonds. In the opinion of Bond Counsel, under existing laws, interest on the Series 2005 A Bonds is exempt from income taxation in the State of Indiana for all purposes except the Indiana financial institutions tax. See "TAX MATTERS" and Appendix C herein.

\$14,790,000
Indiana Bond Bank
Special Program Bonds, Series 2005 A

Dated: Date of Delivery

Due: As shown on the inside cover

The Indiana Bond Bank Special Program Bonds, Series 2005 A (the "Series 2005 A Bonds"), will bear interest from the date of delivery of the Series 2005 A Bonds to their respective maturities in the amounts and at the rates set forth on the inside front cover. The Series 2005 A Bonds are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Series 2005 A Bonds will be made in book-entry-only form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers of beneficial interests in the Series 2005 A Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interests in the Series 2005 A Bonds. Interest on the Series 2005 A Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2005. The principal of and interest on the Series 2005 A Bonds will be paid directly to DTC by U.S. Bank National Association, as trustee (the "Trustee"), under the Indenture, as defined and described herein, so long as DTC or its nominee is the registered owner of the Series 2005 A Bonds. The final disbursement of such payments to the Beneficial Owners of the Series 2005 A Bonds will be the responsibility of the Direct Participants and the Indirect Participants, all as defined and more fully described herein under the caption "THE SERIES 2005 A BONDS-Book-Entry-Only System."

The Series 2005 A Bonds are issued by the Indiana Bond Bank (the "Bond Bank") for the principal purposes of (1) providing funds for the purchase of securities of certain Series 2005 A Qualified Entities (as defined and described herein); (2) providing funds for the current refunding of certain outstanding obligations of the Bond Bank; (3) paying a portion of the interest due on the Series 2005 A Bonds on August 1, 2005, and February 1, 2006; (4) acquiring the call rights of certain Series 2005 A Qualified Entities as provided in the applicable Assigned Series 2005 A Qualified Obligations (as defined herein); (5) paying the premiums for a financial guaranty insurance policy and a debt service reserve credit facility to Financial Security Assurance Inc. (the "Series 2005 A Bond Insurer"); and (6) paying other costs related to the issuance of the Series 2005 A Bonds, all as more fully described in this Official Statement.

The Series 2005 A Bonds are subject to optional, mandatory sinking fund and extraordinary mandatory redemption prior to maturity as described herein under the caption "THE SERIES 2005 A BONDS-Redemption."

The Series 2005 A Bonds are limited obligations of the Bond Bank payable solely out of the revenues and funds of the Bond Bank pledged therefor under the Indenture. The Series 2005 A Bonds do not constitute a debt, liability or loan of the credit of the State of Indiana (the "State") or any political subdivision thereof, including any Qualified Entity (as defined herein) under the constitution and laws of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision thereof, including any Qualified Entity. The source of payment of, and security for, the Series 2005 A Bonds are more fully described herein. The Bond Bank has no taxing power.

(A detailed maturity schedule is set forth on the inside cover)

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.



The Series 2005 A Bonds are offered when, as and if issued by the Bond Bank and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed on for the Bond Bank by special counsel for the Issuer, Bingham McHale LLP, Indianapolis, Indiana, and for the Underwriter by its counsel, Baker & Daniels, Indianapolis, Indiana. It is expected that the Series 2005 A Bonds will be available for delivery to DTC in New York, New York on or about January 25, 2005.

NatCity Investments, Inc.

This cover page contains information for reference only and is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

January 7, 2005

Maturity Schedule

\$14,790,000

Indiana Bond Bank

Special Program Bonds, Series 2005 A

\$10,300,000 Series 2005 A Serial Bonds

<u>Maturity Date*</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Yield</u>
August 1, 2005	\$140,000	2.250%	2.100%
February 1, 2006	\$250,000	2.500%	2.190%
August 1, 2006	\$300,000	2.500%	2.300%
February 1, 2007	\$325,000	2.500%	2.460%
August 1, 2007	\$310,000	2.500%	2.490%
February 1, 2008	\$335,000	2.500%	2.550%
August 1, 2008	\$335,000	2.500%	2.600%
February 1, 2009	\$340,000	3.000%	2.700%
August 1, 2009	\$340,000	3.000%	2.810%
February 1, 2010	\$350,000	3.000%	3.010%
August 1, 2010	\$260,000	3.000%	3.100%
February 1, 2011	\$300,000	4.000%	3.250%
August 1, 2011	\$260,000	4.000%	3.320%
February 1, 2012	\$300,000	4.500%	3.450%
August 1, 2012	\$245,000	4.500%	3.510%
February 1, 2013	\$330,000	4.500%	3.640%
August 1, 2013	\$260,000	4.500%	3.680%
February 1, 2014	\$350,000	4.000%	3.790%
August 1, 2014	\$250,000	4.000%	3.820%
February 1, 2015	\$400,000	4.000%	3.930%
February 1, 2016	\$650,000	4.000%	4.060%
February 1, 2017	\$680,000	4.000%	4.150%
February 1, 2018	\$705,000	4.125%	4.240%
February 1, 2019	\$725,000	4.200%	4.310%
February 1, 2020	\$755,000	4.250%	4.360%
February 1, 2021	\$805,000	4.250%	4.400%

\$4,490,000 4.500% Series 2005 A Term Bonds due February 1, 2027, Yield 4.740%

INDIANA BOND BANK

Board of Directors

Tim Berry, Chairman, Ex Officio
Clark H. Byrum, Vice Chairman
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Morris H. Mills
Charles W. Phillips
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Officer of the Bond Bank

Dan Huge, Executive Director

Trustee

U.S. Bank National Association
Indianapolis, Indiana

Indiana Bond Bank Counsel

Bingham McHale LLP
Indianapolis, Indiana

Bond Counsel

Barnes & Thornburg LLP
Indianapolis, Indiana

Financial Advisor

Crowe Chizek and Company LLP
Indianapolis, Indiana

No dealer, broker, salesperson or other person has been authorized by the Bond Bank or by the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the Series 2005 A Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2005 A Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there have been no changes in the information presented herein since the date hereof.

Other than with respect to information concerning the Series 2005 A Bond Insurer contained under the captions “BOND INSURANCE” and “DEBT SERVICE RESERVE FUND CREDIT FACILITY” and in Appendix F, “SPECIMEN MUNICIPAL BOND INSURANCE POLICY,” and Appendix G, “SPECIMEN DEBT SERVICE RESERVE FUND CREDIT FACILITY herein, none of the information in this Official Statement has been supplied or verified by the Series 2005 A Bond Insurer and the Series 2005 A Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2005 A Bonds; or (iii) the tax exempt status of the interest on the Series 2005 A Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2005 A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BOND BANK AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THE SERIES 2005 A BONDS OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT

\$14,790,000

Indiana Bond Bank Special Program Bonds, Series 2005 A

INTRODUCTION

The purpose of this Official Statement, including the cover page and appendices, is to set forth certain information concerning the issuance and sale by the Indiana Bond Bank (the “Bond Bank”) of its \$14,790,000* aggregate principal amount of Special Program Bonds, Series 2005 A (the “Series 2005 A Bonds”), to be issued by the Bond Bank. The Series 2005 A Bonds have been authorized by a Resolution adopted by the Board of Directors of the Bond Bank on December 14, 2004, and will be issued pursuant to the provisions of a Trust Indenture, dated as of January 1, 2005, between the Bond Bank and the Trustee (as hereinafter defined) (the “Indenture”), and the laws of the State of Indiana, including particularly Indiana Code 5-1.5 (as amended from time to time, the “Act”). U.S. Bank National Association, is the trustee, registrar and paying agent (the “Trustee”) under the Indenture.

The proceeds from the sale of the Series 2005 A Bonds, together with certain other money of the Bond Bank available for application therefor, will be used to provide funds to (a) acquire the Purchased Series 2005 A Qualified Obligations (as defined in Appendix E); (b) defease and refund all of the outstanding Indiana Bond Bank Special Program Bonds, Series 1995 A, originally dated as of October 1, 1995, currently outstanding in the aggregate principal amount of \$3,300,000 (the “Refunded Bonds”), and issued in accordance with an Indenture of Trust (the “Prior Indenture”) dated as of October 1, 1995, between the Bond Bank and Wells Fargo Bank, N.A., successor in interest to Norwest Bank Indiana, N.A., as trustee; (c) pay a portion of the interest due on the Series 2005 A Bonds on August 1, 2005, and February 1, 2006; (d) acquire the call rights of certain Series 2005 A Qualified Entities as provided in the applicable Assigned Series 2005 A Qualified Obligations (as hereinafter defined) (the Purchased Series 2005 A Qualified Obligations and the Assigned Series 2005 A Qualified Obligations are hereinafter collectively referred to as the “Series 2005 A Qualified Obligations”); (e) pay the premiums for a financial guaranty insurance policy and a debt service reserve fund credit facility from Financial Security Assurance Inc. (the “Series 2005 A Bond Insurer”); and (g) pay the other Costs of Issuance (as defined in Appendix E) of the Series 2005 A Bonds, including underwriter’s discount. See the caption “PLAN OF FINANCING.”

Upon the defeasance of the Refunded Bonds, (a) the qualified obligations pledged under the Prior Indenture will be released from the lien thereof; (b) the Series 2005 A Qualified Entities that have agreed to waive their call rights will issue to the Bond Bank refunding bonds (the “Assigned Series 2005 A Qualified Obligations”) in exchange for such Series 2005 A Qualified Entity’s qualified obligations pledged under the Prior Indenture; (c) the Bond Bank will pledge the Assigned Series 2005 A Qualified Obligations to the lien of the Indenture as a part of the Trust Estate, all as more fully described in this Official Statement under the captions “PLAN OF

FINANCING” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 A BONDS.”

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

The summaries of and references to all documents, statutes and other instruments referred to in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the full text of each such document, statute or instrument. Summaries of certain provisions of the Indenture and definitions of some of the capitalized words and terms used in this Official Statement are set forth in Appendix D and Appendix E, respectively. Terms not defined herein shall have the respective meanings ascribed thereto in the Indenture.

Information contained in this Official Statement with respect to the Bond Bank and the Series 2005 A Qualified Entities and copies of the Indenture and the Authorizing Instruments (as hereinafter defined) may be obtained from the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204. The Bond Bank's telephone number is (317) 233-0888.

THE SERIES 2005 A BONDS

General Description

The Series 2005 A Bonds are issuable as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. The Series 2005 A Bonds will be dated the date of delivery thereof and will also carry the date of authentication thereof.

Interest on the Series 2005 A Bonds will be payable semiannually on February 1 and August 1 of each year, commencing August 1, 2005 (each an “Interest Payment Date”). The Series 2005 A Bonds will bear interest (calculated on the basis of a 30-day month and a 360-day year) at the rates and will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. If a Series 2005 A Bond is authenticated on or prior to July 15, 2005, it shall bear interest from the date of delivery of the Series 2005 A Bonds. Each Series 2005 A Bond authenticated after July 15, 2005, shall bear interest from the most recent Interest Payment Date to which interest has been paid on the date of authentication of such Series 2005 A Bond unless such Series 2005 A Bond is authenticated after a Record Date and on or before the next succeeding Interest Payment Date, in which event the Series 2005 A Bond will bear interest from such next succeeding Interest Payment Date.

When issued, all Series 2005 A Bonds will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). Purchases of beneficial interests from DTC in the Series 2005 A Bonds will be made in book-entry-only form (without certificates) in the denomination of \$5,000 or any integral multiple thereof. So long as DTC or its nominee is the registered owner of the Series 2005 A Bonds, payments of the principal of and interest on the Series 2005 A Bonds will be made directly by the Trustee by wire transfer of funds to Cede & Co., as nominee for DTC. Disbursement of such payments to the participants of DTC (the “DTC Participants”) will be the sole responsibility of

DTC, and the ultimate disbursement of such payments to the Beneficial Owners, as defined herein, of the Series 2005 A Bonds will be the responsibility of the Direct Participants (as hereinafter defined) and the Indirect Participants (as hereinafter defined). See the heading, “Book-Entry-Only System” under this caption.

If DTC or its nominee is not the registered owner of the Series 2005 A Bonds, the principal of the Series 2005 A Bonds will be payable at maturity upon the surrender thereof at the principal corporate trust office of the Trustee. Interest on the Series 2005 A Bonds, when due and payable, will be paid by check dated the due date mailed by the Trustee one business day prior to the due date (or, in the case of an owner of Series 2005 A Bonds in an aggregate principal amount of at least \$1,000,000, by wire transfer on such due date, upon written direction of such registered owner to the Trustee not less than five business days before the Record Date immediately prior to such Interest Payment Date, which direction shall remain in effect until revoked in writing by such owner) to the persons in whose names such Series 2005 A Bonds are registered, at their addresses as they appear on the bond registration books maintained by the Trustee on the Record Date, irrespective of any transfer or exchange of such Series 2005 A Bonds subsequent to such Record Date and prior to such Interest Payment Date unless the Bond Bank shall default in the payment of interest due on such Interest Payment Date.

Except as provided under “Book-Entry-Only System,” in all cases in which the privilege of exchanging or transferring Series 2005 A Bonds is exercised, the Bond Bank will execute and the Trustee will deliver Series 2005 A Bonds in accordance with the provisions of the Indenture. The Series 2005 A Bonds will be exchanged or transferred at the principal corporate trust office of the Trustee only for Series 2005 A Bonds of the same tenor and maturity. In connection with any transfer or exchange of Series 2005 A Bonds, the Bond Bank or the Trustee may impose a charge for any applicable tax, fee or other governmental charge incurred in connection with such transfer or exchange, which sums are payable by the person requesting such transfer or exchange.

The person in whose name a Series 2005 A Bond is registered will be deemed and regarded as its absolute owner for all purposes and payment of principal thereof and interest thereon will be made only to or upon the order of the registered owner or its legal representative, but such registration may be changed as provided above. All such payments shall be valid to satisfy and discharge the liability upon such Series 2005 A Bond to the extent of the sum or sums so paid.

Redemption

Optional Redemption. The Series 2005 A Bonds maturing on or after February 1, 2016, are subject to redemption prior to maturity on or after February 1, 2015, in whole or in part on any date as selected by the Bond Bank, at a redemption price equal to the principal amount of each Series 2005 A Bond to be redeemed, plus accrued interest to the redemption date, and without any redemption premium.

Mandatory Redemption. The Series 2005 A Bonds (or any portions thereof in integral multiples of \$5,000 each) maturing on February 1, 2027 (the “Series 2005 A Term Bonds”), are

also subject to mandatory sinking fund redemption prior to their maturity date at a redemption price equal to the principal amount of such Series 2005 A Term Bonds, plus accrued interest on February 1 of each year as shown in the following table:

Series 2005 A Term Bonds Due February 1, 2027

<u>Mandatory Sinking Fund Redemption Date</u>	<u>Principal Amount</u>
February 1, 2022	\$730,000
February 1, 2023	\$770,000
February 1, 2024	\$795,000
February 1, 2025	\$850,000
February 1, 2026	\$685,000
February 1, 2027*	\$660,000

*Final Maturity

Under the Indenture, selection of Term Bonds to be redeemed will be made by lot by the Trustee. In accordance with DTC's standard practices and its agreement with the Bond Bank, DTC and the Direct Participants will make this selection so long as the Series 2005 A Bonds are in book-entry form. The principal amount of Term Bonds to be redeemed on each date set forth above will be subject to reduction by the principal amount of any such Term Bonds of the same maturity which, not less than 45 days prior to a sinking fund redemption date, have been theretofore surrendered to or purchased by the Trustee for cancellation and canceled, all in accordance with the Indenture. The principal amount of any Term Bonds so surrendered and canceled in excess of the principal amount scheduled for redemption in any one year will be credited against future redemption obligations and the principal amounts of Term Bonds subject to sinking fund redemption at such times will be accordingly reduced.

Extraordinary Mandatory Redemption. The Series 2005 A Bonds are also subject to extraordinary mandatory redemption in whole or in part, at any time, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, from and to the extent that moneys are deposited in the Redemption Account from an extraordinary redemption of a Qualified Obligation or from proceeds received upon a default on a Qualified Obligation, unless such moneys can be invested at a yield calculated in accordance with the Code (as defined in Appendix E) over any period of time ending on any subsequent Interest Payment Date which equals or exceeds the average interest rate on the Outstanding Series 2005 A Bonds; provided that in the Opinion of Bond Counsel (as defined in Appendix E) such investment would not cause any of the Series 2005 A Bonds to be "arbitrage bonds" as defined in the Code or otherwise cause the interest on the Series 2005 A Bonds to be included in the gross income of the owners thereof for federal income tax purposes. Notwithstanding the foregoing, for so long as the Series 2005 A Bond Insurance Policy remains in full force and effect, upon the occurrence of an extraordinary mandatory redemption in part, the selection of Series 2005 A Bonds to be redeemed shall be subject to the approval of the Series 2005 A Bond Insurer.

Cash Flow Certificate. Prior to any optional or extraordinary mandatory redemption of any Series 2005 A Bonds, the Bond Bank will be required under the Indenture to deliver or to

cause to be delivered to the Trustee a Cash Flow Certificate (as defined in Appendix E) to the effect that, giving effect to such redemption, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

Notice of Redemption. In the case of redemption of the Series 2005 A Bonds, notice of the call for any such redemption identifying the Series 2005 A Bonds, or portions of fully registered Series 2005 A Bonds, to be redeemed will be given by mailing a copy of the redemption notice by first class, registered or certified mail not less than 30 days nor more than 45 days prior to the date fixed for redemption to the Registered Owner of the Series 2005 A Bonds to be redeemed at the address shown on the registration books of the Trustee. Failure to give such notice by mailing, or any defect thereof with respect to any Series 2005 A Bonds, shall not affect the validity of any proceedings for the redemption of any other Series 2005 A Bonds. All Series 2005 A Bonds so called for redemption shall cease to bear interest on the specified redemption date, shall no longer be protected by the Indenture and shall not be deemed to be outstanding under the provisions of the Indenture, provided funds for their redemption are on deposit at the place of payment at that time.

Redemption Payments. Prior to the date fixed for redemption, there must be on deposit with the Trustee sufficient funds to pay the Redemption Price of the Series 2005 A Bonds called, together with accrued interest on the Series 2005 A Bonds to the redemption date.

Book-Entry-Only System

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2005 A Bonds. The Series 2005 A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2005 A Bond will be issued for each maturity of the Series 2005 A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over eighty-five countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation,

and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of the Series 2005 A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2005 A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2005 A Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2005 A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2005 A Bonds, except in the event that use of the book-entry system for the Series 2005 A Bonds is discontinued.

4. To facilitate subsequent transfers, all Series 2005 A Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2005 A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2005 A Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2005 A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2005 A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2005 A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2005 A Bond documents. For example, Beneficial Owners of Series 2005 A Bonds may wish to ascertain that the nominee holding the Series 2005 A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Series 2005 A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2005 A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts, the Series 2005 A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. The principal and interest payments on the Series 2005 A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Bank or Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Bond Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. The payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Bank or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Series 2005 A Bonds at any time by giving reasonable notice to the Bond Bank or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, the Series 2005 A Bond certificates are required to be printed and delivered.

10. The Bond Bank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Series 2005 A Bonds certificates will be printed and delivered.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE BOND BANK BELIEVES TO BE RELIABLE, BUT THE BOND BANK TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

Revision of Book-Entry-Only System

In the event that either (i) the Bond Bank receives notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the Series 2005 A Bonds or (ii) the Bond Bank elects to discontinue its use of DTC as a clearing agency for the Series 2005 A Bonds, then the Bond Bank and the Trustee will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holders of the Series 2005 A

Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the Series 2005 A Bonds and to transfer the ownership of each of the Series 2005 A Bonds to such person or persons, including any other clearing agency, as the holder of such Series 2005 A Bonds may direct in accordance with the Indenture. Any expenses of such a discontinuation and transfer, including any expenses of printing new certificates to evidence the Series 2005 A Bonds, will be paid by the Bond Bank.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 A BONDS

The Series 2005 A Bonds will be issued under and secured by the Indenture. The principal of and interest on any and all of the Series 2005 A Bonds, together with any Refunding Bonds that may be authorized and issued by the Bond Bank under the Indenture on a parity with the Series 2005 A Bonds (collectively, the “Bonds”), are payable from those revenues and funds of the Bond Bank which, together with the Series 2005 A Qualified Obligations and all other qualified obligations pledged under the Indenture (collectively, the “Qualified Obligations”), are pledged pursuant to the Indenture for the benefit of the owners of the Bonds equally, ratably and without priority.

Neither the faith, credit nor taxing power of the State of Indiana (the “State”) or any political subdivision thereof including any Qualified Entity (as defined in Appendix E), is pledged to the payment of the principal of, redemption premium, if any, and interest on any of the Bonds. The Bonds are not a debt, liability, loan of the credit or pledge of the faith and credit of the State or of any political subdivision thereof including any Qualified Entity. The Bond Bank has no taxing power and has only those powers and sources of revenue set forth in the Act. The Bonds are issued and secured separately from any other obligations issued by the Bond Bank. The sources of payment of and security for the Bonds are more fully described below.

Under the Indenture, the Bonds are secured by a pledge to the Trustee of the Qualified Obligations and all principal and interest payments made or required to be made on the Qualified Obligations (the “Qualified Obligation Payments”), as described therein. In addition, the Indenture pledges to the payment of the Bonds all proceeds of the Trust Estate, including without limitation all cash and securities held in the Funds and Accounts created by the Indenture, except for the Rebate Fund and the accounts thereunder, together with investment earnings thereon and proceeds thereof (except to the extent transferred to the Rebate Fund from such Funds and Accounts under the Indenture), and all other funds, accounts and moneys to be pledged by the Bond Bank to the Trustee as security under the Indenture, to the extent of any such pledge. Under the Act and Indiana Code 5-1-14-4, such pledge is valid and binding from and after the date of delivery of the Series 2005 A Bonds under the Indenture and such Qualified Obligations and the Qualified Obligation Payments thereon shall be immediately subject to the lien of such pledge without any physical delivery of the payments or further act, and the lien of such pledge is valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Bond Bank, irrespective of whether such parties have notice thereof. The Qualified Obligation Payments with respect to the Series 2005 A Qualified Obligations have been structured as of the date of issuance of the Series 2005 A Bonds to be sufficient along with earnings thereon, and other money in the Funds and Accounts under the Indenture and the earnings thereon, to pay the principal of and interest on the Series 2005 A Bonds when due.

Provisions for Payment of the Qualified Obligations

The payment of principal of and interest on the Series 2005 A Qualified Obligations is derived by each of the Series 2005 A Qualified Entities from revenues or, in some cases, from taxes required to be levied and collected by or on behalf of the Series 2005 A Qualified Entity. Each of the Series 2005 A Qualified Obligations has been issued pursuant to a separate detailed resolution, ordinance or indenture of the governing body of the respective Series 2005 A Qualified Entity (collectively and individually, the “Authorizing Instruments”). The sources of payment on the Series 2005 A Qualified Obligations are further described below.

Municipal and Regional District Sewage Works Revenue Obligations. The rates and charges of a municipal sewage works or a regional district sewage works are presently not under the jurisdiction of the Indiana Utility Regulatory Commission (the “IURC”). Under the provisions of Indiana Code 36-9-23 and Indiana Code 13-26, respectively, the legislative body of a municipality, or the board of trustees of a regional wastewater district, must enact fair and equitable rates and charges sufficient to provide, among other things, net revenues which fund a sinking fund for the liquidation of bonds and other obligations payable from such net revenues. Such net revenues are defined as gross revenues less reasonable operation, repair and maintenance costs. Under these statutes, rates and charges which are too low to meet the cash operating and other requirements of the sewage works, including the payment of debt service, are unlawful. Eastern Bartholomew Regional Sewage District, the Town of Medaryville, the City of Aurora, the City of Beech Grove and the Town of Danville, referenced in Appendix B, are each one of the Series 2005 A Qualified Entities and the respective Series 2005 A Qualified Obligation of each consists of its bonds that are payable solely from net revenues of its sewage works. The Town of Danville and its municipal sewer works are more particularly described in Appendix B herein.

Municipal Water Utility Revenue Obligations. Under the provisions of Indiana Code 8-1.5, the IURC has jurisdiction over the rates and charges of all municipally owned water utilities, except for utilities owned by a municipality in which the voters or, in certain circumstances, the legislative body has elected to be taken out of the jurisdiction of the IURC. The City of Logansport, referenced in Appendix B, is one of the Series 2005 A Qualified Entities and has opted out of the jurisdiction of the IURC. The municipal legislative body determines and enacts rates and charges for municipal water utilities and, except for such utilities which have been removed from the jurisdiction of the IURC, the IURC is required by law to adjudicate reasonable and just rates and charges for services for each such municipally owned utility. Under the provisions of Indiana Code 8-1.5-3-8, the rates and charges imposed by such a municipally owned utility must be sufficient to provide, among other things, net revenues which fund a sinking fund for the liquidation of bonds and other obligations payable from such net revenues and a debt service reserve in an amount in an amount not to exceed the maximum annual debt service on such obligations. Under this statute, rates and charges which are too low to meet the cash operating and other statutory revenue requirements of the utility, including the payment of debt service, are unlawful. The statutory revenue requirements are applicable to all municipal utilities described above, whether or not a particular municipal utility is subject to IURC jurisdiction. The City of Logansport, referenced in Appendix B, is one of the Series 2005 A

Qualified Entities and the Series 2005 A Qualified Obligation of the City of Logansport is payable solely from net revenues of its waterworks utility.

Conservancy District Obligations. Pursuant to Indiana Code 14-33-2, a conservancy district may be established to provide for, among other things, flood prevention and control, drainage, irrigation, water supply and sewage collection. To provide funds to pay the costs of such works, a conservancy district may issue bonds payable from the net revenues of the works, or payable from a combination of net revenues and other monies available to the district, including a special benefits tax levied upon all taxable property in the district and the assessment of exceptional benefits. In addition, a conservancy district constitutes a special taxing district with the power to levy special benefits taxes for the payment of its Qualified Obligations. The New London Conservancy District, referenced in Appendix B, is one of the Series 2005 A Qualified Entities and its 2005 Qualified Obligation is payable from the net revenues of the works.

Storm Water Management Obligations. Pursuant to Indiana Code 8-1.5-5, the legislative body of a municipality may establish a department of storm water management, governed by an appointed board of directors, to install, maintain and operate storm water collection and disposal systems of the municipality. The board may establish service rates and charges necessary for reasonable and proper operation and maintenance of the storm water management system, to establish a proper and adequate depreciation account, and to provide revenues to pay the principal of and interest on bonds. Neither the establishment of such rates and charges, nor the issuance of bonds or other obligations, is subject to IURC jurisdiction. Bonds may be issued in the name of the municipality to pay the costs of the acquisition, construction, alteration, addition or extension of the storm water collection and disposal system of such municipality. The bonds may be payable from the net revenues of the works, from a special benefits tax levied upon all taxable property in the municipality or payable from a combination of net revenues and other monies available, including a special benefits tax. The Town of Centerville, referenced in Appendix B, is one of the Series 2005 A Qualified Entities and its 2005 Qualified Obligation is payable from the net revenues received through the rates and charges imposed by the board of directors for storm water management services in the Town.

See Appendix B for additional information concerning the Series 2005 A Qualified Obligations.

Enforcement of the Series 2005 A Qualified Obligations

As owner of the Series 2005 A Qualified Obligations, the Bond Bank has available to it all remedies available to owners or holders of securities issued by the Series 2005 A Qualified Entities. The Act provides that upon the sale and the delivery of any Qualified Obligation to the Bond Bank, a Qualified Entity will be deemed to have agreed that all statutory defenses to nonpayment are waived in the event that such Qualified Entity fails to pay principal of or interest on such Qualified Obligation when due.

Further, each Series 2005 A Qualified Entity has agreed under the purchase agreement for its respective Series 2005 A Qualified Obligation to report to the Bond Bank on its

compliance with certain covenants which the Series 2005 A Qualified Entity has made regarding various actions and conditions necessary to preserve the tax exempt status of interest paid on the Series 2005 A Qualified Obligations. See the caption “TAX MATTERS.” The Bond Bank has also determined to consult with the Series 2005 A Qualified Entities, as necessary from time to time, with regard to the action needed to be taken by the Series 2005 A Qualified Entities to preserve the exclusion of the interest on the Series 2005 A Bonds from the gross income of the holders of the Series 2005 A Bonds.

The Bond Bank will monitor the compliance and consult regularly with the Series 2005 A Qualified Entities with respect to their respective requirements under the 2005 Qualified Obligations, including the making of Qualified Obligation Payments to the Bond Bank.

Debt Service Reserve Fund

The Act authorizes and the Indenture requires the Board of Directors of the Bond Bank to establish and maintain the Debt Service Reserve Fund in which there is to be deposited or transferred:

(i) Moneys available to the Bond Bank required to be deposited in the Debt Service Reserve Fund by the terms of the Indenture (or any future Bond proceeds or other money required by a Supplemental Indenture or resolution of the Bond Bank);

(ii) All money required to be transferred to the Debt Service Reserve Fund for the replenishment thereof from another Fund or Account under the Indenture;

(iii) All money appropriated by the State for replenishment of the Debt Service Reserve Fund; and

(iv) Any other available money, funds or a Credit Facility that the Bond Bank may decide to deposit in the Debt Service Reserve Fund.

Under the Indenture, the Debt Service Reserve Fund is required to contain an amount equal to the Reserve Requirement (as defined in Appendix E). The Bond Bank will satisfy the Reserve Requirement with respect to the Series 2005 A Bonds by depositing a Debt Service Reserve Fund Credit Facility in the Debt Service Reserve Fund. See “DEBT SERVICE RESERVE FUND CREDIT FACILITY.”

State Appropriations Mechanism

The Act provides that the State General Assembly may annually appropriate to the Bond Bank for deposit in the Debt Service Reserve Fund any sum, required by the Act to be certified by the Chairman of the Board of Directors of the Bond Bank to the State General Assembly prior to December 1 of any year, as may be necessary to restore the Debt Service Reserve Fund to the amount then required to be on deposit in the Debt Service Reserve Fund to the Reserve Requirement. The Indenture further requires such certification to be made by the Chairman to the State General Assembly on or before August 1 of any fiscal year of the Bond Bank (“Fiscal Year”) in which the amount in the Debt Service Reserve Fund is projected to be less than the

Reserve Requirement. However, nothing in these provisions or any other provision of the Act creates a debt or liability of the State to make any payments or appropriations to or for the use of the Bond Bank. There can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. The Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately \$450,935,000 in separate program obligations secured by debt service reserve funds, which are also eligible for annual appropriations from the General Assembly.

In accordance with the Constitution of the State, the State General Assembly meets for a maximum period of 61 legislative days in every odd-numbered year in order to establish a budget and to make appropriations. The State General Assembly also meets for a maximum period of 30 legislative days in intervening years in order to make supplemental appropriations. Because the State General Assembly meets for only a portion of each year, there can be no representation or assurance that the State General Assembly could, if it elected to do so, take timely action upon a certificate from the Chairman of the Board of Directors of the Bond Bank in order to provide funds to avoid a default in the payment of principal of or interest on the Bonds.

AGREEMENT WITH THE STATE

Under the Act, the State has pledged to and agreed with the owners of the bonds or notes of the Bond Bank, including the Series 2005 A Bonds, not to limit or restrict the rights vested in the Bond Bank by the Act to fulfill the terms of any agreements made with the owners of such bonds or notes or in any way impair the rights or remedies of such owners until the bonds and notes, together with interest thereon, and interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such owners are fully met, paid and discharged.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2004, Financial Security's total policyholders' surplus and contingency reserves were approximately \$2,255,933,000 and its total unearned premium reserve was approximately \$1,561,771,000 in accordance with statutory accounting practices. At September 30, 2004, Financial Security's total shareholder's equity was approximately \$2,612,989,000 and its total net unearned premium reserve was approximately \$1,286,985,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

DEBT SERVICE RESERVE FUND CREDIT FACILITY

The Indenture requires the establishment of a Debt Service Reserve Fund in an amount equal to the least of (i) 10% of the stated principal amount of the Bonds; provided, however, if any Series of Bonds has more than a de minimus amount of original issue discount or premium, the issue price of such Series of Bonds (net of preissuance accrued interest) shall be used to measure the 10% limitation in lieu of such Series' stated principal amount; (ii) the maximum annual principal and interest requirements on the Bonds; or (iii) 125% of average annual principal and interest requirements on the Bonds. At the time of issuance of the Series 2005 A Bonds, the Reserve Requirement means an amount equal to \$1,212,443.76, and thereafter, if less than such amount, shall be the maximum annual principal and interest requirements on the Outstanding Bonds in the then current or any succeeding Fiscal Year. The Indenture authorizes the Bond Bank to obtain a Debt Service Reserve Fund Credit Facility in place of fully funding the Debt Service Reserve Fund. Accordingly, a commitment has been made by the Series

2005 A Bond Insurer for the issuance of a Debt Service Reserve Fund Credit Facility (the “FSA Credit Facility”) for the purpose of funding the Debt Service Reserve Fund (see “OPERATION OF FUNDS AND ACCOUNTS” herein). The Series 2005 A Bonds will only be delivered upon the issuance of the FSA Credit Facility. The premium on the FSA Credit Facility is to be fully paid at or prior to the issuance and delivery of the Series 2005 A Bonds. The FSA Credit Facility provides that upon the later of (i) one day after receipt by the Series 2005 A Bond Insurer of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Bonds when due has not been made or (ii) the principal or interest payment date specified in the notice of nonpayment submitted to the Series 2005 A Bond Insurer, the Series 2005 A Bond Insurer will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Series 2005 A Bonds, but in no event exceeding the FSA Credit Facility coverage, as defined in the FSA Credit Facility.

Pursuant to the terms of the FSA Credit Facility, the FSA Credit Facility coverage is automatically reduced to the extent of each payment made by the Series 2005 A Bond Insurer under the terms of the FSA Credit Facility and the Bond Bank is required to reimburse the Series 2005 A Bond Insurer for any draws under the FSA Credit Facility with interest at the rate set forth in the Indenture. Upon such reimbursement, the FSA Credit Facility is reinstated to the extent of each principal reimbursement up to but not exceeding the FSA Credit Facility coverage. The reimbursement obligation for the Bond Bank is subordinate to the Bond Bank’s obligations with respect to the Bonds.

In the event the amount on deposit, or credited to the Debt Service Reserve Fund, exceeds the amount of the FSA Credit Facility, any draw on the FSA Credit Facility will be made only after all the funds in the Debt Service Reserve Fund have been expended. In the event that the amount on deposit in or credited to the Debt Service Reserve Fund, in addition to the amount available under the FSA Credit Facility, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the “Additional Funding Instrument”), draws on the FSA Credit Facility and the Additional Funding Instrument will be made on a pro rata basis to fund the insufficiency.

RISKS TO OWNERS OF THE SERIES 2005 A BONDS

Purchasers of the Bonds are advised of certain risk factors with respect to the payment of the Series 2005 A Bonds. This discussion is not intended to be all-inclusive, and other risks may also be present.

Sources of Payments for the Series 2005 A Bonds

The ability of the Bond Bank to pay principal of, and interest on, the Series 2005 A Bonds depends primarily upon the receipt by the Bond Bank of payments pursuant to the Series 2005 A Qualified Obligations, including interest at the rates provided therein, together with earnings on the amounts in the Funds and Accounts sufficient to make such payments. Except for the Debt Service Reserve Fund, there is no source of funds which is required to makeup for any deficiencies in the event of one or more defaults by one or more Series 2005 A Qualified Entities in such payments on the Series 2005 A Qualified Obligations. There can be no representation or assurance that all of the Series 2005 A Qualified Entities that issued the Series

2005 A Qualified Obligations will receive sufficient taxes or revenues, as the case may be, or otherwise have sufficient funds available to make their required payments on the Series 2005 A Qualified Obligations. The receipt of such revenues by any Series 2005 A Qualified Entity is subject to, among other things, future economic conditions, actions by creditors, and other conditions which are variable and not certain of prediction. For a description of procedures for providing for the payment of the Series 2005 A Qualified Obligations, see the captions “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 A BONDS - Provisions for Payment of the Qualified Obligations.”

The State General Assembly may determine to appropriate funds to the extent of any deficiency in the Debt Service Reserve Fund (see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 A BONDS - State Appropriations Mechanism”). However, the State General Assembly is not and cannot be obligated to appropriate any such funds. Moreover, the State General Assembly meets for only a portion of each year commencing in January and ending not later than April 30, unless extended by a special session called by the Governor, and there can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. In no event can or will the Series 2005 A Bonds be deemed to be a debt or obligation of the State. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 A BONDS - State Appropriations Mechanism.”

Tax Exemption

The Bond Bank has covenanted under the Indenture to take all actions and not to fail to take any actions required to assure the continuing exclusion of interest on the Series 2005 A Bonds from gross income for federal income tax purposes. Failure by the Bond Bank to comply with such covenants could cause the interest on the Series 2005 A Bonds to be taxable retroactive to the date of issuance. Also, in connection with the original purchase of each of the Series 2005 A Qualified Obligations, the Bond Bank received an opinion of counsel by a nationally recognized firm experienced in matters relating to municipal law and matters relating to the exclusion of interest payable on obligations of states and their instrumentalities and political subdivisions from gross income under federal tax law, acceptable to the Bond Bank and the Trustee (an “Opinion of Bond Counsel”), for the Qualified Entity to the effect that, conditioned upon continuing compliance by a Qualified Entity with certain covenants made in connection with the issuance of such Series 2005 A Qualified Obligations, the interest on the Series 2005 A Qualified Obligations is excluded from the gross income of the holder thereof for federal income tax purposes under existing statutes, decisions, regulations and rulings. However, the interest on such Series 2005 A Qualified Obligations could become taxable in the event that the Qualified Entity fails to comply with certain of such covenants, including without limitation the covenant to rebate or cause to be rebated, if necessary, to the United States government all arbitrage earnings with respect to its Series 2005 A Qualified Obligations under certain

circumstances and the covenant to take all actions and to refrain from such actions as may be necessary to prevent such Series 2005 A Qualified Obligations from being deemed to be “private activity bonds” under the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2005 A Bonds and any applicable regulations promulgated thereunder (the “Code”). Such an event could in turn adversely affect the exempt status of the interest on all of the Series 2005 A Bonds retroactive to the date of issuance. See the caption “TAX MATTERS.” The Bond Bank is not aware of any circumstances that would cause the interest on the Series 2005 A Qualified Obligations to be includable in gross income for federal income tax purposes under the Code, but has not undertaken any investigation in connection with this Official Statement.

Limited Remedies

The remedies available to the Trustee, to the Bond Bank or to the owners of the Series 2005 A Bonds upon the occurrence of an Event of Default under the Indenture or under the terms of any of the Series 2005 A Qualified Obligations or the Investment Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the “United States Bankruptcy Code”), the remedies provided in the Indenture, the Series 2005 A Qualified Obligations, and the Investment Agreement may not be readily available or may be limited.

Bond Insurance

The Series 2005 A Bond Insurer has issued the Policy, guaranteeing the scheduled payment of the principal of the Series 2005 A Bonds due at maturity, but not as a result of the acceleration thereof (unless consented to by the Series 2005 A Bond Insurer), and interest on the Series 2005 A Bonds due on the scheduled interest payment dates therefor. A form of the Series 2005 A Bond Insurance Policy is attached hereto as Appendix F. Certain information with respect to the Series 2005 A Bond Insurer is set forth under the caption “BOND INSURANCE” herein. Such information was provided by the Series 2005 A Bond Insurer and no representation is made as to the adequacy or the accuracy thereof.

So long as the Series 2005 A Bond Insurer performs its obligations under the Series 2005 A Bond Insurance Policy, the Series 2005 A Bonds cannot be accelerated without the prior written consent of the Series 2005 A Bond Insurer. Furthermore, so long as the Series 2005 A Bond Insurer performs its obligations under the Policy, the Series 2005 A Bond Insurer may direct any remedies that the Bondholders may exercise under the Indenture.

In the event that the Series 2005 A Bond Insurer is required to pay scheduled principal of or interest on the Series 2005 A Bonds, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of the Series 2005 A Bonds.

PLAN OF FINANCING

Plan of Refunding

A portion of the proceeds of the Series 2005 A Bonds, together with certain other money of the Bond Bank, will be used to purchase certain non-callable U.S. Government Obligations (the "Escrowed Securities") to be held in an irrevocable escrow account established under the Escrow Agreement (as defined in Appendix E), to provide funds for the payment when due of the principal of, redemption premium, if any, and interest on the Refunded Bonds through and including the date of redemption thereof as set forth below:

Issue	Outstanding Principal Amount	Redemption Date
Series 1995 A	\$3,300,000	03/01/05*

*\$190,000 principal payment will be made on February 1, 2005.

Upon the Bond Bank depositing the Escrowed Securities into the escrow accounts established under the Escrow Agreement, (a) the qualified obligations pledged under the Prior Indenture will be released from the respective lien thereof; (b) the Series 2005 A Qualified Entities that have agreed to waive their call rights will issue to the Bond Bank the Assigned Series 2005 A Qualified Obligations in exchange for such Series 2005 A Qualified Entity's qualified obligations pledged under the Prior Indenture; and (c) the Bond Bank will pledge the Assigned Series 2005 A Qualified Obligations to the Trustee as a portion of the Trust Estate under the Indenture.

Acquisition of the Purchased Series 2005 A Qualified Obligations

The Bond Bank will use a portion of the proceeds of Series 2005 A Bonds to acquire the Purchased Series 2005 A Qualified Obligations. Each of the Qualified Entities issuing the Purchased Series 2005 A Qualified Obligations has represented to the Bond Bank that the Qualified Entity will use the proceeds received by it from the sale of the Purchased Series 2005 A Qualified Obligations to the Bond Bank to pay all or a portion of the costs of the public works projects identified in its Authorizing Instrument.

APPLICATION OF PROCEEDS OF THE SERIES 2005 A BONDS

Set forth below is a summary of the estimated sources and uses of the proceeds of the Series 2005 A Bonds which will be deposited in the General Account of the General Fund:

Sources:

Principal amount	\$14,790,000.00
Net original issue discount	(88,769.25)
Refunded Bonds Funds Contribution	693,359.68
Total	\$15,394,590.43

Uses:

Acquisition of Purchased Series 2005 A Qualified Obligations	\$10,999,102.00
Deposit into the Escrow Account	3,469,518.81
Acquisition of Call Rights	185,000.00
Costs of issuance	175,000.00
Underwriter's Discount	103,530.00
Premium for Series 2005 A Bond Insurance Policy	53,712.14
Premium for Debt Service Reserve Fund Credit Facility	30,311.09
Capitalized interest	378,416.39
Total	\$15,394,590.43

THE INDIANA BOND BANK

The Bond Bank was created in 1984, and is organized and existing under and by virtue of the Act as a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set forth in the Act. The Bond Bank is not an agency of the State, but is separate from the State in its corporate and sovereign capacity and has no taxing power.

Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and has outstanding as of the date of this Official Statement, an aggregate principal amount of approximately \$4,393,570,000 in separate program obligations not secured by the Indenture, approximately \$450,935,000 of which obligations are secured by debt service reserve funds eligible for annual appropriation by the State General Assembly. Additionally, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financing for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such financing, if any, will be secured separately from the Series 2005 A Bonds and will not constitute Bonds under the Indenture or for purposes of this Official Statement.

The Act

Pursuant to the Act, the purpose of the Bond Bank is to assist “qualified entities”, defined in the Act to include, in part, political subdivisions, as defined in Indiana Code 36-1-2-13, state educational institutions, as defined in Indiana Code 20-12-0.5-1(b), leasing bodies, as defined in Indiana Code 5-1-1-1(a), any commissions, authorities or authorized bodies of any qualified entity, and any organizations, associations or trusts with members, participants or beneficiaries that are all individually qualified entities. The Bond Bank provides such assistance through programs of among other things, purchasing the bonds, notes or evidences of indebtedness of such qualified entities. Under the Act, qualified entities include entities such as cities, towns, counties, school corporations, library corporations, special taxing districts, state educational institutions, charter schools and nonprofit corporations and associations which lease facilities or equipment to such entities. Each of the entities listed in Appendix B is a “qualified entity” within the meaning of the Act.

Powers Under the Act

Under the Act, the Bond Bank has a perpetual existence and is granted all powers necessary, convenient or appropriate to carry out its public and corporate purposes including, without limitation, the power to do the following:

1. Make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the Bond Bank or pertaining to: (i) a loan to or a lease or an agreement with a qualified entity; (ii) a purchase, acquisition or a sale of qualified obligations or other investments; or (iii) the performance of its duties and execution of its powers under the Act;
2. Purchase, acquire or hold qualified obligations or other investments for the Bond Bank's own account or for a qualified entity at such prices and in a manner as the Bond Bank considers advisable, and sell or otherwise dispose of the qualified obligations or investments at prices without relation to cost and in a manner the Bond Bank considers advisable;
3. Fix and establish terms and provisions upon which a purchase or loan will be made by the Bond Bank;
4. Prescribe the form of application or procedure required of a qualified entity for a purchase or loan and enter into agreements with qualified entities with respect to each purchase or loan;
5. Render and charge for services to a qualified entity in connection with a public or private sale of any qualified obligation, including advisory and other services;
6. Charge a qualified entity for costs and services in review or consideration of a proposed purchase, regardless of whether a qualified obligation is purchased, and fix, revise from time to time, charge and collect other Program Expenses properly attributable to qualified entities;

7. To the extent permitted by the indenture or other agreements with the owners of bonds or notes of the Bond Bank, consent to modification of the rate of interest, time and payment of installments of principal or interest, security or any other term of a bond, note, contract or agreement of any kind to which the Bond Bank is a party;

8. Appoint and employ general or special counsel, accountants, financial advisors or experts, and all such other or different officers, agents and employees as it requires;

9. In connection with the purchase of any qualified obligations, consider the need, desirability or eligibility of the qualified obligation to be purchased, the ability of the qualified entity to secure financing from other sources, the costs of such financing and the particular public improvement or purpose to be financed or refinanced with the proceeds of the qualified obligation to be purchased by the Bond Bank;

10. Temporarily invest moneys available until used for making purchases, in accordance with the indenture or any other instrument authorizing the issuance of bonds or notes; and

11. Issue bonds or notes of the Bond Bank in accordance with the Act bearing fixed or variable rates of interest in aggregate principal amounts considered necessary by the Bond Bank to provide funds for any purposes under the Act; provided, that the total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed any aggregate limit imposed by the Act, currently fixed at \$1,000,000,000. Such aggregate limit of \$1,000,000,000 does not apply to: (i) bonds or notes issued to fund or refund bonds or notes of the Bond Bank; (ii) bonds or notes issued for the purpose of purchasing an agreement executed by a qualified entity under Indiana Code 21-1-5; (iii) bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5; (iv) bonds, notes, or other obligations if funds and investments, and the anticipated earned interest on those funds and investments, are irrevocably set aside in amounts sufficient to pay the principal, interest, and premium on the bonds, notes, or obligations at their respective maturities or on the date or dates fixed for redemption; and (v) obligations of certain types of qualified entities that have separate limits.

Under the Act, the Bond Bank may not do any of the following:

1. Lend money other than to a qualified entity;
2. Purchase a security other than a qualified obligation to which a qualified entity is a party as issuer, borrower or lessee, or make investments other than as permitted by the Act;
3. Deal in securities within the meaning of or subject to any securities law, securities exchange law or securities dealers law of the United States, the State or any other state or jurisdiction, domestic or foreign, except as authorized by the Act;
4. Emit bills of credit or accept deposits of money for time or demand deposit, administer trusts or engage in any form or manner, or in the conduct of, any private or

commercial banking business or act as a savings bank, savings association or any other kind of financial institution; or

5. Engage in any form of private or commercial banking business.

Organization and Membership of the Bond Bank

The membership of the Bond Bank consists of seven Directors: the Treasurer of State, serving as Chairman Ex Officio, the Director of the State Department of Financial Institutions, appointed by the Governor and serving as Director Ex Officio, and five Directors appointed by the Governor of the State. Each of the five Directors appointed by the Governor must be a resident of the State and must have substantial expertise in the buying, selling and trading of municipal securities or in municipal administration or public facilities management. Each such Director will serve for a three-year term as set forth below and until a successor is appointed and qualified. Each such Director is also eligible for reappointment and may be removed for cause by the Governor. Any vacancy on the Board is filled by appointment of the Governor for the unexpired term only.

The Directors elect one Director to serve as Vice Chairman. The Directors also appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer. The powers of the Bond Bank are vested in the Board of Directors, any four of whom constitute a quorum. Action may be taken at any meeting of the Board by the affirmative vote of at least four Directors. A vacancy on the Board does not impair the right of a quorum to exercise the powers and perform the duties of the Board of Directors of the Bond Bank.

Directors

The following persons, including those persons with the particular types of experience required by the Act, comprise the present Board of Directors of the Bond Bank:

Tim Berry, Treasurer of the State of Indiana, February 10, 1999-present, and Chairman Ex Officio. Residence: Indianapolis, Indiana, Member, Indiana State Board Finance; Vice Chairman, Indiana Housing Finance Authority; Secretary-Investment Manager, Indiana Board for Depositories; Member, Governing Board of the Indiana Department of Revenue; Treasurer, Indiana State Office Building Commission; Treasurer, Indiana Recreational Development Commission; Trustee, Indiana State Police Pension Fund; Board Member, Indiana Transportation Finance Authority.

Clark H. Byrum, Vice Chairman; term expired July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and President, The Key Corporation, Indianapolis, Indiana, 1977 to present; Chairman of the Board, American State Bank of Lawrenceburg, Aurora and Greendale, Indiana, 1990 to present; Board Member, NCB Corporation and NorCen Bank, 1986 to present; Member, American Bankers Association; Member, Indiana Bankers Association; Member, National Association of Life Underwriters.

Charles W. Phillips, Director of the Indiana Department of Financial Institutions, 1989 to present, and Director Ex Officio, serving at the pleasure of the Governor. Residence: New Albany, Indiana. Director Ex Officio, Indiana Housing Finance Authority; President, Floyd County Bank, New Albany, Indiana, 1962-1985; Former Examiner, Federal Deposit Insurance Corporation.

Russell Breeden, III, Director; term expired July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and CEO, Community First Financial Group, Inc., 1995 to February, 2002; Director, English State Bank, 1995 to present; Chairman, Peoples Trust Bank Company, 1994 to present; Chairman, Peninsula Banking Group, 1995 to present; Chairman, Bay Cities National Bank, 1995 to present; Director and President, Bettenhausen Motorsports, Inc., 1988 to present.

Morris H. Mills, Director; term expired July 1, 2003. Residence: Ladoga, Indiana. Partner, Mills Bros. Farms; Member, Indiana State Senate, 1972 to 2000; Member, Indiana State House of Representatives, 1968 to 1972; Director and Officer, Maplehurst Group, 1954 to 1996.

C. Kurt Zorn, Director; term expired July 1, 2003. Residence: Bloomington, Indiana. Professor of Public and Environmental Affairs, Indiana University, 1994 to Present; Chairman, State Board of Tax Commissioners, January 1991 -August 1994; Associate Professor, School of Public and Environmental Affairs, Indiana University, 1987-1994 (on leave 1989-1992); Member, American Economic Association; Member, National Tax Association; Member, Governmental Finance Officers Association.

Marni McKinney, Director; term expired July 1, 2004. Residence: Indianapolis, Indiana. Chairman, First Indiana Bank; Vice Chairman & Chief Executive Officer; First Indiana Corporation; Board of Directors, Indianapolis Public Transit Authority; Member, America's Community Bankers Association.

Although the expiration date of the terms of five Directors has passed, the Act provides that their terms will not expire until their successors are appointed and qualified. No such successors have been appointed and qualified.

The Directors are authorized to appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer of the Board of Directors. Dan Huge was appointed Executive Director of the Indiana Bond Bank on October 9, 2001. Mr. Huge previously served as the Deputy Director of the Indianapolis Local Public Improvement Bond Bank for over three years. Mr. Huge has over 14 years of corporate accounting and managerial experience. He is a Certified Public Accountant and holds a B.S. from Purdue University.

REVENUES, FUNDS AND ACCOUNTS

The Indenture creates certain Funds and Accounts identified in more detail below. Pursuant to the Indenture, the Trustee will deposit the net proceeds of the Series 2005 A Bonds,

together with other moneys into these Funds and Accounts as described below. Appendix D sets forth a summary of certain provisions of the Indenture.

Creation of Funds and Accounts

The Indenture establishes the following Funds and Accounts to be held by the Trustee:

1. General Fund - comprised of the following:
 - (a) General Account
 - (b) Bond Issuance Expense Account
 - (c) Redemption Account
2. Debt Service Reserve Fund
3. Rebate Fund

Deposit of Net Proceeds of the Series 2005 A Bonds, Revenues and Other Receipts

On the date of delivery of the Series 2005 A Bonds, the Trustee will deposit the proceeds from the sale of the Series 2005 A Bonds, together with other moneys made available by the Bond Bank, as follows:

(a) Into the Bond Issuance Expense Account of the General Fund, the amount of \$175,000.00 in order to pay the Costs of Issuance (other than the underwriter's discount retained by the Underwriter and the respective premiums for the Series 2005 A Bond Insurance Policy and the Debt Service Reserve Fund Credit Facility paid by the Underwriter directly to the Series 2005 A Bond Insurer for and on behalf of the Bond Bank); and

(b) Into the General Account of the General Fund, the sum of \$14,338,677.52 which represents the remainder of the net proceeds, of which \$2,776,159.13 (together with \$693,359.68 of monies transferred from the funds and accounts relating to the Refunded Bonds) will be immediately transferred to the Escrow Trustee (as defined in Appendix E), in its capacity as escrow trustee under the Escrow Agreement, \$10,999,102.00 will be used to acquire the Purchased Series 2005 A Qualified Obligations, \$185,000.00 will be immediately transferred to and applied by the Bond Bank to the acquisition of the call rights with respect to the Assigned Series 2005 A Qualified Obligations, and \$378,416.39, will be used to pay a portion of the interest on the Series 2005 A Bonds on August 1, 2005, and February 1, 2006.

The Trustee will deposit all Revenues and all other receipts (except the proceeds of the Series 2005 A Bonds, and moneys received by the Bond Bank from the sale or redemption prior to maturity of the Series 2005 A Qualified Obligations) into the General Account of the General Fund and will deposit any moneys received from the sale or redemption prior to maturity of the Series 2005 A Qualified Obligations into the Redemption Account of the General Fund.

Thereafter, the Trustee will deposit the proceeds of any Refunding Bonds as provided under the Supplemental Indenture authorizing the issuance of such Refunding Bonds.

OPERATION OF FUNDS AND ACCOUNTS

General Fund

General Account. The Trustee will deposit in the General Account of the General Fund all moneys required to be deposited therein pursuant to the Indenture. The Trustee will invest such funds in accordance with the Indenture and will make the following payments from the General Account on the specific dates, and if there are not sufficient funds to make all the payments required, in the following order of priority:

(a) On the date of initial delivery of the Series 2005 A Bonds and upon the submission of requisitions of the Bond Bank signed by an Authorized Officer, stating that all of the requirements with respect to such financing set forth in the Indenture have been or will be complied with, (i) to the Escrow Trustee, an amount sufficient, together with other money made available by the Bond Bank, to defease and refund the Refunded Bonds in the manner set forth in the Escrow Agreement, (ii) an amount sufficient to acquire the Purchased Series 2005 A Qualified Obligations, and (iii) an amount sufficient to acquire the call rights of the Prior Qualified Obligations (as defined in the Indenture) and assign the Assigned Series 2005 A Qualified Obligations to the Trustee;

(b) On or before 10:00 A.M. in the city in which the Trustee is located, on the business day next preceding each Interest Payment Date, to the Trustee such amount as shall be necessary to pay the principal and interest coming due on the Bonds on such Interest Payment Date;

(c) As soon as funds become available, and only to the extent necessary, to the Debt Service Reserve Fund, sufficient amounts to assure that the Reserve Requirement is met;

(d) At such times as shall be necessary, amounts to pay the Program Expenses, but only to the extent contemplated in the most recent Cash Flow Certificate;

(e) On or before thirty (30) days after each anniversary of the issuance of the Series 2005 A Bonds, any amount necessary to comply with any Rebate Fund requirements; and

(f) After making such deposits and disbursements and after the Trustee will make a determination of the amounts reasonably expected to be received in the form of Qualified Obligation Payments under the Indenture in the succeeding twelve months, to any other fund or account maintained by the Bond Bank, regardless of whether such fund or account is subject to the lien of the Indenture, all moneys in the General Fund which, together with such expected receipts for the succeeding twelve months, are in excess of the amounts needed to pay principal of and interest on the Bonds within the immediately

succeeding twelve-month period. No moneys shall be so transferred unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that after such transfer, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds, together with Program Expenses, if any.

Bond Issuance Expense Account. The Trustee will disburse the amounts held in the Bond Issuance Expense Account upon receipt of invoices or requisitions certified by the Executive Director of the Bond Bank to pay the Costs of Issuance of the Bonds or to reimburse the Bond Bank for amounts previously advanced for such costs. On July 15, 2005, any amounts remaining in the Bond Issuance Expense Account will be transferred to the General Account.

Redemption Account. (a) The Trustee will deposit in the Redemption Account all moneys received upon the sale or redemption prior to maturity of the Qualified Obligations and will disburse the funds in the Redemption Account as follows:

(1) On the fifteenth day of each month, to the General Account amounts of moneys equal to the amount of principal which would have been payable during the following month if such Qualified Obligations had not been sold or redeemed prior to maturity.

(2) On the second business day next preceding each Interest Payment Date, if moneys in the General Account are not sufficient to make the payments of principal and interest required to be made on such date, the Trustee shall transfer to the General Account moneys in the Redemption Account not already committed to the redemption of Bonds for which notice of redemption has been given.

(3) After making provisions for the required transfers to the General Account as described in subparagraphs (1) and (2) above, (i) to redeem Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank, if such Bonds are then subject to redemption, (ii) to the extent there are any excess moneys in the Redemption Account, to the General Account, (iii) to purchase Bonds of such maturity or maturities as directed by an Authorized Officer at the most advantageous price obtainable with reasonable diligence, whether or not such Bonds are then subject to redemption, or (iv) to make investments of such moneys until the payment of Bonds at their maturity or maturities as directed by an Authorized Officer in accordance with the Indenture. Such purchase price may not, however, exceed the Redemption Price which would be payable on the next ensuing date on which the Bonds so purchased are redeemable according to their terms, unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that the purchase at a price in excess of the Redemption Price will not result in Revenues, together with moneys expected to be held in the Funds and Accounts, being less than an amount equal to debt service on all Outstanding Bonds, together with Program Expenses, if any. The Trustee will pay the interest accrued on the Bonds so purchased to the date of delivery thereof from the General Account and the balance of the purchase price from the Redemption Account, but no such purchase shall be made by the Trustee within the period of sixty (60) days next preceding an Interest Payment Date or a

date on which such Bonds are subject to redemption under the provisions of the Indenture or the Supplemental Indenture authorizing the issuance of such Bonds. The Trustee will deliver the Bonds so purchased to the Trustee within five (5) days from the date of delivery to the Trustee.

(4) In the event that the Trustee is unable to purchase Bonds as described in clause (iii) of subparagraph (3) above, then, subject to restrictions on redemption set forth in the Indenture, the Trustee will call for redemption on the next redemption date such amount of Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank as will exhaust the Redemption Account as nearly as may be possible at the applicable Redemption Price. The Trustee will pay the interest accrued on any such redeemed Bonds to the date of redemption from the General Account and will pay the Redemption Price from the Redemption Account.

(b) The Trustee may, upon written direction from the Bond Bank, transfer any moneys in the Redemption Account to the General Account if the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that after such transfer and after any transfer from the General Account to the Bond Bank, Revenues, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

Debt Service Reserve Fund

The Trustee will deposit in the Debt Service Reserve Fund all moneys required to be deposited therein pursuant to the Indenture, will invest such funds, and, except as provided in the Indenture, will disburse the funds held in the Debt Service Reserve Fund solely to the General Account for the payment of interest on and principal of the Bonds and only in the event that moneys in the General Account are insufficient to pay principal of and interest on the Bonds after all of the transfers thereto required to be made under the Indenture from the Redemption Account have been made. Amounts in the Debt Service Reserve Fund in excess of the Reserve Requirement will be transferred to the General Account or the Redemption Account, as directed by the Bond Bank.

The Bond Bank may cause to be deposited into the Debt Service Reserve Fund for the benefit of the holders of the Series 2005 A Bonds a Debt Service Reserve Fund Credit Facility. If such deposit causes the Debt Service Reserve Fund to be equal to the Reserve Requirement, moneys in the Debt Service Reserve Fund in excess of that needed for the Debt Service Reserve Fund to be equal to the Reserve Requirement will be moved in accordance with the Indenture, subject to the satisfaction of any Debt Service Reserve Fund Reimbursement Obligations from such excess as described below. If a disbursement is made pursuant to a Debt Service Reserve Fund Credit Facility, the Bond Bank will be obligated (but solely from the appropriations, if any, made and available pursuant to the Indenture or if otherwise available from the Trust Estate) within twelve months from the date on which such disbursement was made, to cure such deficiency, either (i) to reinstate the maximum limits of such Debt Service Reserve Fund Credit Facility or (ii) to deposit cash into the Debt Service Reserve Fund, or a combination of such alternatives, so that the Debt Service Reserve Fund is equal to the Reserve Requirement. The

Trustee will include in the total amount held in the Debt Service Reserve Fund an amount equal to the maximum principal amount which could be drawn by the Trustee under any such Debt Service Reserve Fund Credit Facility on deposit with the Trustee. Amounts required to be deposited in the Debt Service Reserve Fund will include any amount required to satisfy a Debt Service Reserve Fund Reimbursement Obligation for any Debt Service Reserve Fund Credit Facility. The Trustee is authorized to move the amounts to satisfy the Debt Service Reserve Fund Reimbursement Obligations to the provider of the Debt Service Reserve Fund Credit Facility. See “DEBT SERVICE RESERVE FUND CREDIT FACILITY” herein.

Rebate Fund

The Trustee will establish and maintain, so long as any Bonds are outstanding and are subject to a requirement that arbitrage profits be rebated to the United States, a separate fund to be known as “Rebate Fund.” The Trustee will make information regarding the Bonds and investments hereunder available to the Bond Bank and will make deposits in and disbursements from the Rebate Fund in accordance with the written instructions received from the Bond Bank and pursuant to the Indenture, will invest the Rebate Fund pursuant to written investment instructions received from the Bond Bank and will deposit income from such investments immediately upon receipt thereof in the Rebate Fund.

If a deposit to the Rebate Fund is required as a result of the computations made by the Bond Bank, the Trustee will upon receipt of written directions from the Bond Bank accept such payment for the benefit of the Bond Bank and make transfers of moneys from the General Account to the Rebate Fund to comply with such direction. If amounts in excess of that required to be rebated to the United States of America accumulate in the Rebate Fund, the Trustee will upon written direction from the Bond Bank transfer such amount to the General Account. Records of the determinations required by the Indenture and the investment instructions must be retained by the Trustee until six (6) years after the Bonds are no longer Outstanding.

Not later than sixty (60) days after the fifth anniversary date of the date of issuance of the 2005 A Bonds, and every five (5) years thereafter, the Bond Bank will pay to the United States the amount required to be paid to the United States pursuant to the Code as of such payment date, and not later than sixty (60) days after the final retirement of the Series 2005 A Bonds and any subsequently issued tax-exempt Bonds, the Bond Bank will pay to the United States the amount required to be paid to the United States pursuant to the Code as of such retirement date. Each payment required to be paid to the United States pursuant to the Indenture will be, together with a properly completed Internal Revenue Service Form 8038-T, filed with the Internal Revenue Service Center, Ogden, Utah 84201.

Amounts Remaining in Funds

Any amounts remaining in any Fund or Account after full payment of all of the Bonds outstanding under the Indenture, all required rebates and the fees, charges and expenses of the Trustee will be distributed to the Bond Bank.

LITIGATION

There is not now pending or, to the Bond Bank's knowledge, threatened any litigation: restraining or enjoining the issuance, sale, execution or delivery of the Series 2005 A Bonds; seeking to prohibit any transactions contemplated by the Indenture; or in any way contesting or affecting the validity of the Series 2005 A Bonds or the Series 2005 A Qualified Obligations or any proceedings of the Bond Bank taken with respect to the issuance or sale of the Series 2005 A Bonds, or the Pledges (as hereinafter defined under the caption "ENFORCEABILITY OF REMEDIES") or application of any moneys or security provided for payment of the Series 2005 A Bonds or the Series 2005 A Qualified Obligations. Neither the creation, organization or existence of the Bond Bank nor the title of any of the present directors or other officers of the Bond Bank to their respective offices is being contested.

TAX MATTERS

In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel, under existing law, interest on the Series 2005 A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2005 A Bonds (the "Code"). The opinion of Barnes & Thornburg LLP is based on certain certifications, covenants and representations of the Bond Bank and the Series 2005 A Qualified Entities issuing the Series 2005 A Qualified Obligations (the "Tax Covenants") and is conditioned on continuing compliance therewith. In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel, under existing laws, interest on the Series 2005 A Bonds is exempt from income taxation in the State of Indiana for all purposes except the State financial institutions tax. See Appendix C for the form of Bond Counsel opinion.

The Code imposes certain requirements which must be met subsequent to the issuance of the Series 2005 A Bonds as a condition to the exclusion from gross income of interest on the Series 2005 A Bonds for federal income tax purposes. Noncompliance with such requirements may cause interest on the Series 2005 A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue, regardless of the date on which noncompliance occurs. Should the Series 2005 A Bonds bear interest that is not excluded from gross income for federal income tax purposes, the market value of the Series 2005 A Bonds would be materially and adversely affected. The Tax Covenants include covenants that: (i) the Bond Bank and the Series 2005 A Qualified Entities whose 2005 Qualified Obligations are acquired with proceeds of the Series 2005 A Bonds (the "2005 A Qualified Entities") will not take or fail to take any action with respect to the Series 2005 A Bonds, if such action or omission would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the Series 2005 A Bonds under Section 103 of the Code, and the Bond Bank and the 2005 A Qualified Entities will not act in any other manner which would adversely affect such exclusion; (ii) the Bond Bank and 2005 A Qualified Entities will not make any investment or do any other act or thing during the period that the Series 2005 A Bonds are outstanding which would cause the Series 2005 A Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code; and (iii) if required by the Code, the Bond Bank will rebate any necessary amounts to the United States of America. It is not an event of default under the Indenture or any Authorizing

Instrument if interest on the Series 2005 A Bonds or any of the 2005 Qualified Obligations issued by the 2005 A Qualified Entities, respectively, is not excluded from gross income for federal income tax purposes pursuant to any provision of the Code which is not in effect on the date of issuance of the Series 2005 A Bonds.

The interest on the Series 2005 A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Series 2005 A Bonds is includable in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

The Series 2005 A Bonds are not “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general, include all corporations which are transacting the business of a financial institution in the State. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code.

Although Bond Counsel will render an opinion that interest on the Series 2005 A Bonds is excluded from gross income for federal income tax purposes and that interest on the Series 2005 A Bonds is exempt from certain State income tax, the accrual or receipt of interest on the Series 2005 A Bonds may otherwise affect an owner’s federal or state tax liability. The nature and extent of these other tax consequences will depend upon the owner’s particular tax status and the owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Series 2005 A Bonds should consult their own tax advisors with regard to other tax consequences of owning the Series 2005 A Bonds.

The foregoing does not purport to be a comprehensive description of all of the tax consequences of owning the Series 2005 A Bonds. Prospective purchasers of the Series 2005 A Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the Series 2005 A Bonds.

ORIGINAL ISSUE DISCOUNT

The initial public offering price of the Series 2005 A Bonds maturing on February 1 and August 1 in the years 2008 and 2010 and on February 1 in the years 2016 through 2021 and 2027 (collectively, the “Discount Bonds”), is less than the principal amount payable at maturity. As a result, the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of the Discount Bonds, as set forth on the inside front cover of this Official Statement (assuming it is the first price at which a substantial amount of that maturity is sold) (the “Issue Price” for such maturity), and the amount payable at maturity of the Discount Bonds, will be treated as “original issue discount.” The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bond on the basis of the yield to maturity determined on the basis of compounding at

the end of each six-month period (or shorter period from the date of the original issue) ending on February 1 and August 1 (with straight line interpolation between compounding dates). An owner who purchases a Discount Bond in the initial public offering at the Issue Price for such maturity will treat the accrued amount of original issue discount as interest which is excludable from the gross income of the owner of that Discount Bond for federal income tax purposes.

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). Owners of Discount Bonds who dispose of Discount Bonds prior to maturity should consult their tax advisors concerning the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bonds prior to maturity.

The original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. Owners of any Discount Bonds should be aware that the accrual of original issue discount in each year may result in a tax liability from these collateral tax consequences even though the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the Issue Price for such maturity should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible under the applicable provisions governing the determination of state or local income taxes that accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

AMORTIZABLE BOND PREMIUM

The initial offering price of the Series 2005 A Bonds maturing on August 1, 2005, on February 1 and August 1 in the years 2006, 2007, 2009 and 2011 through and including 2014, and on February 1, 2015 (collectively, the "Premium Bonds"), is greater than the principal amount payable at maturity. As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "Bond Premium"). An owner who acquires a Premium Bond in the initial offering will be required to adjust the owner's basis in the Premium Bond downward as a result of the amortization of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon the disposition of the

Premium Bonds (including sale, redemption or payment at maturity). The amount of amortizable Bond Premium will be computed on the basis of the taxpayer's yield to maturity, with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth at Section 171(b) of the Code. No income tax deduction for the amount of Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium on those Premium Bonds consisting of Series 2005 A Bonds may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning such Premium Bonds. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of such Premium Bonds and with respect to the state and local tax consequences of owning and disposing of the Premium Bonds.

Special rules governing the treatment of Bond Premium on those Premium Bonds consisting of Series 2005 A Bonds, which are applicable to dealers in tax-exempt securities, are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning the treatment of such Bond Premium.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee or the holders of the Series 2005 A Bonds upon a default under the Indenture, to the Trustee or the Bond Bank under the 2005 Qualified Obligations, the purchase agreements for the 2005 Qualified Obligations and the Authorizing Instruments, or to any party seeking to enforce the pledges securing the Series 2005 A Bonds or the 2005 Qualified Obligations described herein (collectively the "Pledges"), are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided (or which may be provided) in the Indenture, the purchase agreements for the 2005 Qualified Obligations, the 2005 Qualified Obligations and the Authorizing Instruments, or to any party seeking to enforce the Pledges, may not be readily available or may be limited. Under Federal and State environmental laws, certain liens may be imposed on property of the Bond Bank or the Qualified Entities from time to time, but the Bond Bank has no reason to believe, under existing law, that any such lien would have priority over the lien on the Qualified Obligation Payments pledged to owners of the Series 2005 A Bonds under the Indenture or over the liens pledged to the owner of the 2005 Qualified Obligations under the Authorizing Instruments.

The various legal opinions to be delivered concurrently with the delivery of the Series 2005 A Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally, by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and by public policy. These exceptions would encompass any exercise of the Federal, State or local police powers in a manner consistent with the public health and welfare. Enforceability of the Indenture, the purchase agreements for the 2005 Qualified Obligations, the Authorizing Instruments and the

Pledges in a situation where such enforcement may adversely affect public health and welfare may be subject to these police powers.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance, sale and delivery of the Series 2005 A Bonds are subject to the approval of Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel, whose approving legal opinion will be delivered with the Series 2005 A Bonds, substantially in the form attached hereto as Appendix C. Certain legal matters will be passed on by Issuer's Counsel, Bingham McHale LLP, Indianapolis, Indiana, and Baker & Daniels, Indianapolis, Indiana, counsel for the Underwriter.

RATINGS

S&P is expected to assign a rating of "AAA" to the Series 2005 A Bonds. Such rating is conditional upon the issuance of the Series 2005 A Bond Insurance Policy. S&P has assigned a long term rating, without consideration of municipal bond insurance or other credit enhancement, of "A" to the Series 2005 A Bonds. These ratings reflect only the view of S&P and an explanation thereof may be obtained from S&P at 55 Water Street, New York, New York 10041. Such ratings are not a recommendation to buy, sell or hold the Series 2005 A Bonds. There is no assurance that such ratings will remain in effect for any given period of time or that such ratings will not be lowered or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. The Underwriter has undertaken no responsibility either to bring to the attention of the owners of the Series 2005 A Bonds any proposed revision or withdrawal of any rating of the Series 2005 A Bonds or to oppose any such proposed revision or withdrawal. Any such downward revision or withdrawal of any rating may have an adverse effect on the market price or marketability of the Series 2005 A Bonds.

UNDERWRITING

The Series 2005 A Bonds are being purchased by the Underwriter. The Underwriter has agreed to purchase the Series 2005 A Bonds at an aggregate purchase price of \$14,513,677.52, which represents the par amount of \$14,790,000.00 less the underwriter's discount of \$103,530.00, less net original issue discount of \$88,769.25, less the premiums for the Series 2005 A Bond Insurance Policy and the Debt Service Reserve Fund Credit Facility in the aggregate amount of \$84,023.23, pursuant to a purchase contract entered into by and between the Bond Bank and the Underwriter. Such purchase contract provides that the Underwriter will purchase all of the Series 2005 A Bonds if any are purchased.

The Underwriter has agreed to make a bona fide public offering of all of the 2005 A Bonds at prices not in excess of the initial public offering prices set forth or reflected inside the cover page of this Official Statement. The Underwriter may sell the 2005 A Bonds to certain dealers (including dealers depositing 2005 A Bonds into investment trusts) and others at prices lower than the offering prices set forth inside the cover page hereof.

VERIFICATION OF MATHEMATICAL CALCULATIONS

The accuracy of certain mathematical computations showing (i) that payments on the Qualified Obligations, together with other available revenues, have been structured to be sufficient to pay principal of and interest on the Series 2005 A Bonds when due, and (ii) that the adequacy of the Escrowed Securities, together with other money held in the escrow accounts under the Escrow Agreement to provide for the payment of principal of and interest on the Refunded Bonds when due, will be verified by Crowe Chizek and Company LLC, independent certified public accountants. Such verifications shall be based upon certain information and assumptions supplied by the Bond Bank and the Underwriter.

SERIES 2005 A BONDS AS LEGAL INVESTMENTS

Pursuant to the Act, all Indiana financial institutions, investment companies, insurance companies, insurance associations, executors, administrators, guardians, trustees, and other fiduciaries may legally invest sinking funds, money, or other funds belonging to them or within their control in bonds or notes issued by the Bond Bank.

AVAILABILITY OF DOCUMENTS AND FINANCIAL INFORMATION

Separate audited financial reports of the State and the Bond Bank, respectively, (collectively, the "Financial Reports") are prepared annually and are presently available for the year ended June 30, 2004, and prior years. No financial reports related to the foregoing entities are prepared on an interim basis and there can be no assurance that there have not been material changes in the financial position of the foregoing entities since the date of the most recent available Financial Statements. Upon request and receipt of payment for reasonable copying, mailing and handling charges, the Bond Bank will make available copies of the most recent Financial Reports, any authorizing or governing instruments defining the rights of owners of the Series 2005 A Bonds or the owners of the 2005 Qualified Obligations and available financial and statistical information regarding the Bond Bank and the Qualified Entities. Requests for documents and payments therefor should be directed and payable to the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204.

CONTINUING DISCLOSURE

Pursuant to disclosure requirements set forth in Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), and the terms of the Continuing Disclosure Undertaking Agreement (the "Undertaking"), among the State, the Bond Bank and the Trustee, the State will agree to provide or cause to be provided through the Trustee or the Bond Bank, as dissemination agent, the following annual financial information and operating data, as long as the State is an "obligated person" (within the meaning of the Rule) with respect to the Bonds (or until such time as the Bonds may be defeased or paid in full, all as more fully set forth in the Undertaking):

1. Audited Financial Statements. To each nationally recognized municipal securities information repository ("NRMSIR") and to the Indiana state information depository, if any (the

“State Depository”), when and if available, the audited financial statements of the State for each fiscal year of the State, beginning with the fiscal year ended June 30, 2005, together with the independent auditor's report and all notes thereto; if audited financial statements are not available within 220 days following the close of the fiscal year of the State, beginning with the fiscal year ended June 30, 2005, the Annual Information (as defined below) shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Information when they become available; and

2. Financial Information in this Official Statement. To each NRMSIR and to the State Depository, if any, within 220 days of the close of the fiscal year of the State, beginning with the fiscal year ended June 30, 2005, annual financial information, other than the audited or unaudited financial statements described above, including operating data of the type provided in Appendix A - “FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA.”

(The information described in items 1 and 2 above is referred to as the “State Annual Information.”)

Pursuant to the terms of the Undertaking, the Bond Bank (and the State, but only to the extent the State shall have actual knowledge of such event) will also agree to provide to each NRMSIR or to the Municipal Securities Rulemaking Board (the “MSRB”), and to the State Depository, if any, the following event notices, if material, and in a timely manner:

- principal and interest payment delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the Series 2005 A Bonds;
- modifications to the rights of Bondholders;
- Bond calls (other than scheduled mandatory sinking fund redemptions for which notice is given in accordance with the Indenture and as described in the Final Official Statement);
- defeasances;
- release, substitution or sale of property securing repayment of the Bonds; and
- rating changes.

The State or the Bond Bank may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above.

While the Bonds are outstanding, the Series 2005 A Qualified Entities that are then Major 2005 Qualified Entities (as hereinafter defined) have agreed to provide to the Bond Bank the preceding event notices with regard to the 2005 Qualified Obligations that they have issued, if material, and in a timely manner, and have agreed to provide the following information:

Financial Information. An update of the financial information and operating data relating to the Major 2005 Qualified Entities of the same nature as that contained in Appendix B to each NRMSIR, to the State Depository, if any, and to the Bond Bank, within 180 days after each December 31, commencing with the calendar year ending December 31, 2004.

Audited Financial Statements. To each NRMSIR, to the State Depository, if any, and to the Bond Bank, when and if available, the audited financial statements of the Major 2005 Qualified Entities as prepared and examined by the State Board of Accounts for each twelve (12) month period ending December 31, commencing with the year ending December 31, 2004, together with the opinion of such accountants and all notes thereto, within sixty (60) days of receipt of such statements from the State Board of Accounts.

(The information described in items 1 and 2 above is referred to as the “Major Qualified Entity Annual Information.”)

Notwithstanding the foregoing, any information required to be provided by a Major 2005 Qualified Entity to each NRMSIR and the State Depository as described above may, instead, be provided by a Major 2005 Qualified Entity to DisclosureUSA, but only for so long as the conditions for the interpretation made by the SEC in the Response continue to be met. “DisclosureUSA” means the Internet-based electronic filing system created by the Municipal Advisory Council of Texas for the purpose of facilitating compliance by issuers and obligated persons (both as defined in the Rule) with continuing disclosure agreements entered into to satisfy the obligations of underwriters (as defined in the Rule). “Response” means the interpretive letter, dated September 7, 2004, released by the Division of Market Regulation of the SEC regarding DisclosureUSA.

The Major 2005 Qualified Entities consist of those Series 2005 A Qualified Entities, the outstanding principal amount of whose 2005 Qualified Obligations are twenty percent (20%) or more of the aggregate of the outstanding principal amount of all 2005 Qualified Obligations. Initially, the Major 2005 Qualified Entities consist only of the Town of Danville, Indiana (the “Town”), and the Town has entered into a continuing disclosure agreement (the “Major 2005 Qualified Entity Continuing Disclosure Agreement”) to provide the foregoing information in the manner described above. Thereafter, in accordance with the Bond Bank’s Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”), as of each January 1, the Bond Bank will determine which of the Series 2005 A Qualified Entities are Major 2005 Qualified Entities.

If there are changes from the previous year, the Bond Bank, on or before January 31 of the immediately succeeding year, will notify, if applicable, those Series 2005 A Qualified Entities which are no longer Major 2005 Qualified Entities (and whose 2005 Qualified Obligations remain outstanding) of the termination of their reporting requirements under their respective Major 2005 Qualified Entity Continuing Disclosure Agreements until notified otherwise by the Bond Bank, and, if applicable, those Series 2005 A Qualified Entities, which have become Major 2005 Qualified Entities, of the requirement to enter into a Major 2005 Qualified Entity Continuing Disclosure Agreement meeting the requirements of the Rule.

Each of the Series 2005 A Qualified Entities which are not initially Major 2005 Qualified Entities have entered into agreements with the Bond Bank in which they have agreed to enter into such Major 2005 Qualified Entity Continuing Disclosure Agreements, if and when requested to do so by the Bond Bank. Thereupon, such new Major 2005 Qualified Entities shall enter into the Major 2005 Qualified Entity Continuing Disclosure Agreements, pursuant to which they will be required to provide notices of the occurrence of the foregoing events, if material, and the Major 2005 Qualified Entity Annual Information for the year commencing in that calendar year in the manner described above.

Failure to Disclose

In a timely manner, the Trustee shall notify each NRMSIR or the MSRB, and the State Depository, if any, of any failure on the part of the State to provide the State Annual Information. Notwithstanding the obligation of the Trustee to give such notice, the State must give notice, in a timely manner, to each NRMSIR or the MSRB and the State Depository, if any, if it fails to provide the State Annual Information. If any information relating to the State can no longer be provided because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the State to each NRMSIR and to the State Depository, if any, along with the State Annual Information required as specified above and containing such information as is still available, will satisfy the State's undertaking to provide the State Annual Information. To the extent available, the State will cause to be filed along with the State Annual Information operating data similar to that which can no longer be provided.

In a timely manner, a Major 2005 Qualified Entity shall notify each NRMSIR or the MSRB, and the State Depository, if any, of any failure on the part of the Major 2005 Qualified Entity to provide the Major 2005 Qualified Entity Annual Information. If any information relating to the Major 2005 Qualified Entity can no longer be provided because the operations to which it relates have been materially changed or discontinued, a statement to that effect, provided by the Major 2005 Qualified Entity to each NRMSIR and to the State Depository, if any, along with the Major 2005 Qualified Entity Annual Information required as specified above, will satisfy the Major 2005 Qualified Entity's undertaking to provide the Major 2005 Qualified Entity Annual Information.

Accounting Principles

The accounting principles pursuant to which the financial statements of the State will be prepared will be generally accepted accounting principles, as in effect from time to time or those mandated by State law from time to time. The audited financial statements of a Major 2005 Qualified Entity (i) will be audited and prepared pursuant to accounting and reporting policies conforming in all material respects to generally accepted accounting principles as applicable to governments with such changes as may be required from time to time in accordance with State law, or (ii) will be audited (only if required by State law) and prepared in accordance with State law.

Remedies

The Undertaking, the Continuing Disclosure Agreement and the Major 2005 Qualified Entity Continuing Disclosure Agreement (collectively, the “Undertakings”) are solely for the benefit of the holders and beneficial owners of the Bonds and create no new contractual or other rights for the SEC, any underwriters (other than the Underwriter), brokers, dealers, municipal securities dealers, potential customers, or other obligated persons or any other third party. The sole remedy against the State, the Bond Bank or any Major 2005 Qualified Entity for any failure to carry out any provision of their respective Undertakings shall be for specific performance of their respective obligations thereunder. Failure on the part of the State or the Bond Bank to honor their respective covenants under the Undertaking and the Continuing Disclosure Agreement shall not constitute a breach or default of the Bonds, the Indenture or any other agreement to which the State or the Bond Bank is a party. Failure on the part of a Major 2005 Qualified Entity to honor its covenants under its Major 2005 Qualified Entity Undertaking shall not constitute a breach or default of the 2005 Qualified Obligations or any other agreement to which the Major 2005 Qualified Entity is a party. This remedy may be exercised by any holder or beneficial owner of the Bonds who may seek specific performance by court order to cause the State or the Bond Bank to comply with their respective obligations thereunder.

Modification of Undertaking or Continuing Disclosure Agreement

The Bond Bank, the State and the Trustee may, from time to time, amend or modify any provision of the Undertaking, and the Bond Bank may, from time to time, amend or modify any provision of the Continuing Disclosure Agreement, without the consent of the holders or the beneficial owners of the Bonds if either: (a) (i) such amendment or modification is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Bond Bank, the State or the Series 2005 A Qualified Entities, or type of business conducted by any such parties, (ii) the Undertaking or the Continuing Disclosure Agreement, as so amended or modified, would have complied with the requirements of the Rule on the date of the Undertaking or the Continuing Disclosure Agreement, as the case may be, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interest of the holders or beneficial owners of the Bonds, as determined either by (A) any person selected by the State that is unaffiliated with the State (including the Trustee), with respect to the Undertaking, or any person selected by the Bond Bank that is unaffiliated with the Bond Bank or any 2005 Qualified Entity (including the Trustee), with regard to the Continuing Disclosure Agreement, or (B) an approving vote of the holders of the requisite percentage of Outstanding Bonds as required under the Indenture at the time of such amendment or modification; or (b) such amendment or waiver (including an amendment which rescinds the Undertaking or the Continuing Disclosure Agreement) is permitted by law or the Rule, as then in effect.

The State Annual Information for the fiscal year during which any such amendment or modification occurs that contains the amended or modified State Annual Information will explain, in narrative form, the reasons for such amendment or waiver and the impact of the change in the type of State Annual Information being provided.

Copies of the Undertaking and the Continuing Disclosure Agreement are available from the Bond Bank upon request.

Modification of Major 2005 Qualified Entity Continuing Disclosure Agreement

A Major 2005 Qualified Entity may, from time to time, amend any provision of the Major 2005 Qualified Entity Continuing Disclosure Agreement without the consent of the holders or the beneficial owners of the Bonds if either: (a) (i) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Major 2005 Qualified Entity, or type of business conducted, (ii) the Major 2005 Qualified Entity Continuing Disclosure Agreement, as so amended, would have complied with the requirements of the Rule on the date of the Major 2005 Qualified Entity Continuing Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment does not materially impair the interest of the holders or beneficial owners of the Bonds, as determined either by (A) any person selected by the Major 2005 Qualified Entity that is unaffiliated with the Major 2005 Qualified Entity, the Bond Bank or the State (such as the Trustee) or (B) an approving vote of the holders of the requisite percentage of outstanding Bonds as required under the Indenture at the time of such amendment; or (b) such amendment is otherwise permitted by the Rule.

Copies of the Major 2005 Qualified Entity Continuing Disclosure Agreement are available from the Bond Bank upon request.

Compliance with Previous Undertakings

In the previous five years, the Bond Bank, the State and the Town have never failed to comply in all material respects with any previous undertakings in a written contract or agreement that any of them entered into pursuant to subsection (b)(5) of the Rule.

MISCELLANEOUS

The references, excerpts, and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents, and reference is made to all such documents for full and complete statements of all matters of fact relating to the Series 2005 A Bonds, the security for the payment of the Series 2005 A Bonds and the rights of the owners thereof. During the period of the offering, copies of drafts of such documents may be examined at the office of the Underwriter. Following delivery of the Series 2005 A Bonds, copies of such documents may be examined at the offices of the Bond Bank.

The information contained in this Official Statement has been compiled from official and other sources deemed to be reliable, and while not guaranteed as to completeness or accuracy, is believed to be correct as of this date.

Any statements made in this Official Statement involving matters of opinions or estimates, whether or not expressly so stated, are set forth as such and not as representations of

fact, and no representation is made that any of the estimates will be realized. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information presented herein since the date hereof. This Official Statement is submitted in connection with the issuance and sale of the Series 2005 A Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract or agreement among the Bond Bank, the Qualified Entities, the Trustee or the Underwriter and the purchasers or owners of any Series 2005 A Bonds. The delivery of this Official Statement has been duly authorized by the Board of Directors of the Bond Bank.

INDIANA BOND BANK

By: /s/ Tim Berry
Tim Berry, Chairman, Ex Officio

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APPENDIX A

**FINANCIAL AND ECONOMIC
STATEMENT FOR THE STATE OF INDIANA**

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APPENDIX A

**FINANCIAL AND ECONOMIC
STATEMENT FOR THE STATE OF INDIANA**

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I. INTRODUCTION

This Financial and Economic Statement (the “Statement” and “Appendix A”) for the State of Indiana (the “State”) includes a discussion of the State’s economic and fiscal condition, the results of operations for the past two fiscal years and revenue and expenditure projections through the end of the biennium ending June 30, 2005. The information is compiled on behalf of the State by the State Budget Agency and the Public Finance Office and includes information and data taken from the Budget Agency’s unaudited reports. It also includes information obtained from other sources the State believes to be reliable. Information included in the section titled “Litigation” has been furnished by the office of the State Attorney General.

This Appendix A is dated as of January 3, 2005, except for the section captioned “LITIGATION,” which is dated as of November 19, 2004. The State expects to update the Statement not less than annually. The status of this Statement or any updates or supplements may be obtained by contacting the Public Finance Office, State of Indiana, One North Capitol, Suite 900, Indianapolis, Indiana 46204; Telephone (317) 233-4332. This Statement should be read in its entirety, together with any supplements.

II. STRUCTURE OF STATE GOVERNMENT

Division of Powers

The State constitution divides the powers of State government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any one department may exercise any function of another department unless expressly authorized to do so by the constitution.

Executive Department

The executive department of the State is comprised of the Governor, Lieutenant Governor, Secretary of State, Auditor of State, Treasurer of State, Attorney General, Superintendent of Public Instruction and Clerk of the Supreme Court and Court of Appeals. All are elected for four-year terms, with the terms of the Lieutenant Governor, Attorney General and Superintendent of Public Instruction coinciding with that of the Governor.

The State constitution requires the Governor to “take care that the laws are faithfully executed.” The Governor may recommend legislation to the General Assembly of the State (the “General Assembly”), may call special sessions of the General Assembly and may veto any bill passed by the General Assembly (although such veto may be overridden if the bill is re-passed by a majority of *all* the members elected to each house of the General Assembly). If the Governor vacates the office or is unable to discharge the Governor’s duties, the Lieutenant Governor discharges the powers and duties as Acting Governor until the next general election.

The Lieutenant Governor serves as the President of the State Senate and casts the deciding vote whenever the Senate is equally divided. The Lieutenant Governor also serves as director of the State Department of Commerce, the Commissioner of Agriculture, the chairman of the Indiana Housing Finance Authority, the secretary manager of the Indiana Development Finance Authority and a member of the Indiana State Office Building Commission.

The Secretary of State attests official State documents issued by the Governor, maintains records of elections and administers State laws regulating the sale and trading of securities and corporate and Uniform Commercial Code filings.

The Treasurer of State is responsible for holding and investing all State revenue and disburses money upon warrants issued by the Auditor of State. The Treasurer of State is a member of the State Board of Finance, Indiana Transportation Finance Authority, Indiana Housing Finance Authority, Indiana Development Finance Authority and State Office Building Commission. The Treasurer of State is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority.

The Auditor of State maintains the State's centralized financial accounting system for all State agencies. Responsibilities include accounting for receipts and disbursements of the State, as well as issuing payroll for most State employees. The Auditor of State is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The Auditor of State is a member of the State Board of Finance, State Office Building Commission, State Board for Depositories and Information Technology Oversight Commission.

The Attorney General is the chief legal officer of the State and is required to represent the State in every lawsuit in which the State is a party. The Attorney General, upon request, gives legal opinions regarding particular statutes to the Governor, members of the General Assembly and officers of the State.

The Superintendent of Public Instruction chairs the State Board of Education, which establishes policies and directives for implementation by the Indiana Department of Education. The Superintendent of Public Instruction oversees the Department of Education.

The Clerk of the Supreme Court and Court of Appeals performs the clerical and administrative duties required by the two highest courts of the State.

Legislative Department

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in November of each even-numbered calendar year. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The members of the House of Representatives select the Speaker from among the ranks of the House. The Lieutenant Governor is President of the Senate.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Pursuant to the State constitution, special sessions of the General Assembly may be convened by the Governor at any time if, in the Governor's opinion, "the public welfare shall require." By statute, a special session of the General Assembly may not exceed 30 session days during a 40-calendar-day period. The Governor cannot limit the subject of any special session or its scope.

Judicial Department

The State constitution provides that the "judicial power of the State shall be vested in one Supreme Court, one Court of Appeals, Circuit Courts, and such other courts as the General Assembly may establish."

The Judicial Nominating Commission (comprised of the Chief Justice or his appointee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three. If the Governor fails to choose among the nominees within 60 days, the Chief Justice is required to make the appointment.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a "yes" or "no" referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote from the voting public serve a ten-year term,

after which they are again subject to referendum. Justices and judges are prohibited from taking part in political campaigns and must retire by age 75.

III. FISCAL POLICIES

Fiscal Years

The State's Fiscal Year is the twelve-month period beginning on July 1 and ending on June 30 of the succeeding calendar year (a "Fiscal Year").

Accounting System

The State maintains a central accounting system that processes all payments for State agencies and institutions with the exception of State colleges and universities. The Auditor of State is responsible for the pre-audit of all payments, the issuance of all warrants and the maintenance of the accounting system.

Budgetary control is fully integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The Budget Agency makes quarterly allotments. Capital is allotted as projects are approved by the State Budget Committee.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis of accounting. Government-wide financial statements are recognized as full accrual basis of accounting and fund statements are recognized as modified accrual basis of accounting in accordance with generally accepted accounting principles for government financial reporting purposes.

Fund Structure

Funds are used to record the financial activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

Governmental Funds. Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized when susceptible to accrual (that is, when it is "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the following fund types:

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government that are not required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. There are several Special Revenue Funds including the Motor Vehicle Highway Fund, which receives revenue from gasoline taxes and motor vehicle registrations and operator licensing fees and distributes that revenue among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

The Property Tax Replacement Fund ("PTR Fund") is also reported as a Special Revenue Fund by the Auditor of State. The PTR Fund is funded from 50% of State sales and use tax revenue, a portion of individual income tax receipts, and a portion of Gaming Revenue described below. The PTR Fund is used to provide (i) property tax relief and (ii) local school aid. Although reported as a Special Revenue Fund, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund, so as to provide a more complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures

relate to local school aid. For that reason, the General Fund and PTR Fund are sometimes discussed in this Appendix A as a single, combined fund. See “FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund.”

Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units that are bodies corporate and politic with the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund, Soldiers and Sailors Children’s Home Fund, Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

Proprietary Funds. Proprietary Funds are used to account for a government’s business-type activities. They use the accrual basis of accounting. There are two types of Proprietary Funds, Enterprise Funds and Internal Service Funds. Enterprise Funds are used to account for provision of services to customers outside the government. Examples are the State Lottery Commission and Inns and Concessions. Internal Service Funds are used to account for provision of services to other funds, departments or agencies of the government. An example is the State Office Building Commission.

Fiduciary Funds. Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support government programs. They use the accrual basis of accounting. Indiana has three types of these funds: Pension Trust Funds, Private-purpose Trust Funds, and Agency Funds. Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans. Examples are the State Police Pension Fund and the Employees’ Deferred Compensation Fund. Private-purpose Trust Funds are used to report any trust arrangement not properly reported in a pension trust fund or an investment trust fund under which principal and income benefit individuals, private organizations, or other governments. Examples are the Student Loan Program Fund and the Abandoned Property Fund. Agency Funds are used to account for situations where the government’s role is purely custodial, such as the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments. Examples are the Child Support Fund and the Local Distributions Fund.

Budget Process

State Budget Agency. The Budget Agency is responsible for preparing the State budget. After the budget is enacted by the General Assembly, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

State Budget Committee. The Budget Committee consists of the State Budget Director and four State legislators. The Budget Committee oversees the preparation of the budget and administration of capital budgets after enactment. The legislative members of the Budget Committee consist of two members of the Senate, appointed by the President *pro tempore* of the Senate, and two members of the House of Representatives, appointed by the Speaker of the House of Representatives. One of the two appointees from each chamber must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member’s respective chamber and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses.

Budget Development. The State’s budget process is set out in statute. The State operates under a two-year budget; the legislature enacts one act containing two annual budgets. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency

then conducts an internal review of each request. In September of each even-numbered year, the Budget Committee begins hearings on budget requests. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor.

Revenue Projections. Revenue projections are prepared by the State's Technical Forecast Committee. The Economic Forecast Committee is responsible for forecasting independent variables that may be employed by the Technical Forecast Committee to derive the State's revenue projections. The Economic Forecast Committee is currently comprised of seven economists from Indiana and a special adviser associated with the Federal Reserve Bank of Chicago, all of whom serve at the request of the Governor and without pay. Members of the Economic Forecast Committee have detailed knowledge of the State and national economies, the banking community and the Federal Reserve System and have access to a national econometric model.

The Technical Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenue. Each regular member of the Budget Committee appoints a member of the Technical Forecast Committee. Members of the Budget Committee appoint one additional member from a higher education institution for a total of six members. Members of the Technical Forecast Committee are individuals with expertise in public finance.

No formal contact occurs between the Economic Forecast Committee and the Technical Forecast Committee until the chair of each group reports to the Budget Committee, although the Economic Forecast Committee provides the economic assumptions used by the Technical Forecast Committee in preparing revenue projections. The report presented by the Technical Forecast Committee is a consensus forecast in which Democratic and Republican legislators and the executive and legislative departments are involved.

Budget Report. The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bills are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through hearings and other inquiries. If the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bill, the recommendation of the Budget Agency is included in the bill. The particular item, matter or amount, and the extent of and reasons for the differences between the Budget Agency and the Budget Committee must be stated fully in the budget report.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers such budget bill to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes budget bill first and sends it to the Senate for consideration.

The budget report includes (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the State capital improvement program, and (e) the budget bill.

Appropriations. Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the Auditor of State and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance for the ensuing Fiscal Year. The Auditor of State then establishes the necessary accounts based upon the list.

Intra-Agency Transfers. The Budget Agency is responsible for administering the State budget after it is enacted. By statute, the Budget Agency may, with the approval of the Governor and the State Budget Director,

transfer, assign or reassign all or any part of any appropriation made to any agency for a specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose that an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

Contingency Appropriations. The General Assembly may also make "contingency appropriations" to the Budget Agency, which are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. By law, the Budget Agency may make and order allocations and transfers to, and authorized expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following:

1. necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made;
2. repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged so as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made;
3. emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made, or
4. without limiting the foregoing, supplement an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if such is found necessary to accomplish the orderly administration of the agency, or the accomplishment of an existing specific State project.

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

State Board of Finance

The State Board of Finance (the "Finance Board") consists of the Governor, the Treasurer of State and the Auditor of State. The Finance Board elects from its membership a president, who, by tradition, is the Governor. The Auditor of State is the secretary of the Finance Board. The Finance Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Finance Board may transfer money between funds, except trust funds, and the Finance Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Finance Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting "casual deficits" in State revenue. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenue is not being received by the General Fund to repay the loan when due, the Finance Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Finance Board has never negotiated a loan to meet a deficit in State revenue.

Cash Management and Investments

The Treasurer of State is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The Treasurer of State is responsible for investing the General Fund, the PTR Fund and more than 60 other funds. Indiana Code 5-13 sets forth certain limitations on the types and amounts of investments in which the Treasurer of State may invest State funds. These investments generally include securities (a) that are backed by the full faith and

credit of the United States Treasury or fully guaranteed by the United States and (b) issued by the United States Treasury, a federal agency, a federal instrumentality or a federal government sponsored enterprise, as well as (c) other securities specified in statute. Additionally, investments may include repurchase agreements fully collateralized by securities listed in (a) and (b) above and certain deposit accounts insured by the Public Deposit Insurance Fund. No more than 25% of the total portfolio invested by the Treasurer of State may be made in securities maturing from two to five years, and no such security may have a maturity in excess of five years.

Audits

The State Board of Accounts is the State agency responsible for (a) auditing all State and local units of government and (b) approving uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of government it audits, including the comprehensive annual financial report (or CAFR) prepared annually by the Auditor of State.

Certain Financial Information Incorporated by Reference; Availability from NRMSIRs, State

The Indiana Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2004 (the “2004 Financial Report”) is incorporated into this Appendix A by reference. So long as the State is deemed to be an “obligated person” under the meaning of Rule 15c2-12 of the Securities and Exchange Commission, it will file annually such a financial report with the following Nationally Recognized Municipal Securities Information Repositories (“NRMSIRs”) in accordance with SEC Rule 15c2-12: Bloomberg Municipal Repository, FT Interactive Data, DPC Data, Inc., and Standard & Poor’s Securities Evaluations, Inc.

A copy of the 2004 Financial Report may be obtained from the NRMSIRs. In addition, the 2004 Financial Report may be found at: <http://www.in.gov/idfa/pfo>.

The 2004 Financial Report that may be found at the referenced website is intended to provide financial information about the State prepared and published by the Auditor of State. It is not, by itself, intended to present investment information about any particular revenue bond issue, including the revenue bonds offered with this Appendix A, within the meaning of applicable securities laws. Investment decisions should be made only after full review of the official statement for a particular revenue bond issue, including the revenue bonds offered with this Appendix A.

The 2004 Financial Report that may be found at the referenced website speaks only as of its date. There should be no implication that there has been no change in the financial or other affairs of the State or any other person described in this Statement or in the 2004 Financial Report after the date of the 2004 Financial Report.

IV. STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS

Operating Revenue

While certain revenue of the State is required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenue is general revenue until applied. No lien or priority is created to secure the application of such revenue to any particular purpose or to any claim against the State. All revenue not allocated to a particular fund is credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

Although established by law as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a more complete and accurate description

of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For this purpose, the combined receipts are referred to as “State Operating Revenue” and “Operating Revenue.” Operating Revenue is defined as the total of General Fund and PTR Fund revenue forecasted by the Technical Forecast Committee. Total Operating Revenue together with “DSH revenue” transferred to the General Fund, plus transfers from other funds when necessary and available, are used in the determination of the State’s unappropriated balance reflected on the Combined General and PTR Fund Unappropriated Reserve Statement. “DSH” is an acronym for “Disproportionate Share for Hospitals (federal funds),” and DSH revenue constitutes additional Medicaid reimbursements provided to the State for hospitals that serve disproportionately large numbers of poor people. See “Fund Balances—Combined General and PTR Fund.”

Major General Fund and PTR Fund Revenue Sources

Sales and use and corporate and individual income taxes are the three primary sources of State Operating Revenue. In addition, legislation passed by the 2002 General Assembly, directs the deposit of wagering taxes into the PTR Fund, making wagering taxes another source of Operating Revenue beginning in Fiscal Year 2003. Table IV-1 provides annual revenue by source and growth rates over time. The following is a summary of Operating Revenue.

Sales and Use Taxes. The 2002 General Assembly, meeting in Special Session, increased the sales and use tax rate from 5.0% to 6.0%, effective December 1, 2002. This tax is imposed on sales and rentals of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 6.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs. Prior to the 2002 increase, the sales and use tax rate was last increased in Fiscal Year 1983.

Corporate Income Taxes. As part of tax restructuring legislation passed in 2002, the General Assembly repealed the gross income tax and the supplemental corporate net income tax and increased the corporate adjusted gross income tax rate to 8.5% of apportioned Indiana adjusted gross income (AGI). These changes were effective January 1, 2003.

The adjusted gross income tax is applicable to corporations doing business in the State. Prior to the change in tax rate, the effective rate for a taxpayer paying adjusted gross income tax and supplemental net income tax was 7.47%. AGI is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the adjusted gross income tax. Adjusted gross income tax collections are allocated to the General Fund.

The utilities receipts tax is based on gross receipts from retail utility sales. It is imposed at a rate of 1.4% and was effective January 1, 2003. Utilities must also pay the corporate adjusted gross income tax.

Individual Adjusted Gross Income Tax. Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents with income derived from Indiana sources is taxed at 3.4%. All revenue derived from the collection of the adjusted gross income tax imposed on persons is credited to the General Fund and PTR Fund. State individual income tax rates were last increased effective calendar year 1988.

Wagering Tax. The wagering tax is applied to the adjusted gross receipts of riverboat gambling operations in Indiana. Prior to Fiscal Year 2003, all wagering taxes earned by the State were deposited into the Build Indiana Fund. Legislation passed by the Special Session of the 2002 General Assembly changed the collection and distribution of wagering taxes and allowed riverboats to implement flexible scheduling, enabling patrons to gamble while a riverboat is docked. The legislation imposes a graduated wagering tax on riverboats that adopt flexible scheduling. The graduated tax is set at 15% of the first \$25.0 million of adjusted gross receipts in a fiscal year, 20% of receipts between \$25.0 million and \$50.0 million, 25% of receipts between \$50.0 million and \$75.0 million, 30% of receipts between \$75.0 million and \$150.0 million, and 35% of adjusted gross receipts in excess of

\$150.0 million. The wagering tax on riverboats that do not implement flexible scheduling increased from 20% to 22.5% of adjusted gross receipts; however, all riverboats operating in Indiana have implemented flexible scheduling.

The legislation also changed the distribution of wagering taxes. The first \$33.0 million of wagering taxes collected in the State's fiscal year must be set aside for revenue sharing among local units of government that do not have riverboats. Of the remaining revenue, 25% is distributed to the cities and counties with riverboat operations, and 75% is deposited in the PTR Fund. From the revenue distributed to the PTR Fund, an amount is distributed annually to the Build Indiana Fund.

Other Operating Revenue. Other revenue ("Other Revenue") is derived from Cigarette Taxes, Alcoholic Beverage Taxes, Inheritance Taxes, Insurance Taxes, Interest Earnings and miscellaneous revenue. In 2002, the General Assembly increased the cigarette tax by \$0.40 per pack, to \$0.555 per pack, and increased the tax on other tobacco products by 3%.

Revenue History

Annual percentage changes for each component of Operating Revenue is reflected in Table IV-1. The table also includes actual, but unaudited, revenue for prior Fiscal Years as well as forecasted revenue for Fiscal Year 2005.

Table IV-1
State Operating Revenue
(Millions of Dollars)

	<u>Sales Tax</u>	<u>Individual Income</u>	<u>Corporate Income</u>	<u>Wagering Tax</u>	<u>Other⁽¹⁾</u>	<u>Total</u>
FY 1998 ⁽²⁾	3,250.9	3,434.8	1,015.5	N/A	720.2	8,421.4
FY 1999 ⁽²⁾	3,396.0	3,699.3	1,044.4	N/A	743.5	8,883.2
FY 2000 ⁽²⁾	3,651.4	3,753.3	985.3	N/A	752.7	9,142.7
FY 2001 ⁽²⁾	3,686.8	3,779.8	855.3	N/A	730.1	9,052.0
FY 2002 ⁽²⁾	3,761.4	3,540.8	709.4	N/A	697.2	8,708.9
FY 2003 ⁽²⁾	4,172.4	3,644.2	729.2	430.7	903.6	9,880.1
FY 2004 ⁽²⁾	4,721.0	3,807.9	644.7	601.5	844.8	10,619.9
FY 2005 ⁽³⁾	4,956.8	4,102.1	811.7	599.9	841.9	11,312.3
<u>% Change from Prior Year</u>						
FY 1999 ⁽²⁾	4.5%	7.7%	2.8%		3.2%	5.5%
FY 2000 ⁽²⁾	7.5%	1.5%	-5.7%		1.2%	2.9%
FY 2001 ⁽²⁾	1.0%	0.7%	-13.2%		-3.0%	-1.0%
FY 2002 ⁽²⁾	2.0%	-6.3%	-17.1%		-4.5%	-3.8%
FY 2003 ⁽²⁾	10.9% ⁽⁴⁾	2.9%	2.8%	N/A	29.6% ⁽⁴⁾	13.4% ⁽⁴⁾
FY 2004 ⁽²⁾	13.1% ⁽⁴⁾	4.5%	-11.6%	39.7% ⁽⁴⁾	-6.5%	7.5% ⁽⁴⁾
FY 2005 ⁽³⁾	5.0%	7.7%	25.9%	-0.3%	-0.3%	6.5%

⁽¹⁾ See "Major General Fund and PTR Fund Revenue Sources—Other Operating Revenue."

⁽²⁾ Actual, but unaudited Operating Revenue.

⁽³⁾ Operating Revenue forecasted as of December 14, 2004.

⁽⁴⁾ The forecasted Operating Revenue is adjusted to reflect the tax increases enacted in 2002, which include a sales tax increase from 5% to 6%, effective December 1, 2002; a cigarette tax increase from \$0.155 to \$0.555, effective July 1, 2002; and wagering tax increases, effective July 1, 2002. A portion of wagering tax revenue is deposited in the PTR Fund. See "Financial Results of Operations."

Source: State Budget Agency

Lottery and Gaming Revenue

By statute, certain revenue from the Hoosier Lottery, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, "Gaming Revenue") must be deposited in the Build Indiana Fund. In 2002, the General Assembly enacted annual distributions of wagering tax revenue to the BIF in the amount of

\$250.0 million per year less the annual amounts distributed to the BIF from Hoosier Lottery profits, charitable gaming taxes and license fees and pari-mutuel wagering taxes. Any revenue in excess of \$250.0 million is to remain in the PTR Fund. For a description of wagering taxes, *see* “Major General Fund and PTR Fund Revenue Sources—Wagering Tax.”

Before Hoosier Lottery profits are transferred to the Build Indiana Fund, \$60 million annually is used to fund local government pension liabilities. All lottery and gaming revenue deposited to BIF is appropriated by the General Assembly, and the statute that governs deposits of that revenue also governs priority of distribution in the event that revenue falls short of appropriations. At present, the highest distribution priority (after pension account transfers) is to the State’s counties for motor vehicle excise tax replacement, providing a substantial cut in the excise tax charged on motor vehicles—\$236.2 million are appropriated for Fiscal Year 2004.

For Fiscal Year 2004, Gaming Revenue totaling \$804.9 million was collected by the State from the following sources:

Hoosier Lottery	\$198.5 million
Riverboat gaming	601.5 million
Horse racing	1.9 million
Charity gaming	3.0 million

Source: State Budget Agency

Operating Expenditures

The General Assembly appropriated \$22,786.5 million of General Fund and PTR Fund revenue for Fiscal Years 2004 and 2005. Actual expenditures may differ from appropriated levels as a result of a number of factors, including unforeseen expenses and executive and legislative action. The State’s five largest expenditure categories include local school aid, higher education, property tax relief, Medicaid and correction. These five categories constitute approximately 86.2% of all appropriations for Fiscal Years 2004 and 2005. Table IV-2 sets forth operating expenditures, estimates and appropriations for all major expenditure categories for Fiscal Years 1998 through 2005.

Table IV-2
Expenditures and Appropriations

	<u>Local</u> <u>School Aid</u>	<u>Property</u> <u>Tax Relief</u>	<u>Higher</u> <u>Education</u>	<u>Medicaid</u>	<u>Correction</u>	<u>Other</u>	<u>Total</u>
FY 1998 ⁽¹⁾	3,423.1	873.3	1,180.5	913.3	403.9	1,504.3	8,298.4
FY 1999 ⁽¹⁾	3,691.8	946.7	1,248.0	948.5	410.9	1,802.4	9,048.3
FY 2000 ⁽¹⁾	3,894.0	1,078.6	1,331.5	986.1	473.5	1,829.8	9,593.5
FY 2001 ⁽¹⁾	4,172.8	1,220.0	1,331.3	1,110.9	547.2	1,635.5	10,017.7
FY 2002 ⁽¹⁾	3,889.5	1,209.9	1,294.7	1,138.0	582.1	1,592.9	9,707.1
FY 2003 ⁽²⁾	4,214.1	1,638.5	1,389.4	1,247.0	569.0	1,629.5	10,687.5
FY 2004 ⁽³⁾	4,253.6	2,115.2	1,474.4	1,266.4	589.3	1,581.9	11,280.7
FY 2005 ⁽³⁾	4,302.5	2,243.9	1,527.7	1,266.4	591.4	1,573.9	11,505.8
<u>% Change from Prior Year</u>							
FY 1999 ⁽¹⁾	7.8%	8.4%	5.7%	3.9%	1.7%	19.8%	9.0%
FY 2000 ⁽¹⁾	5.5%	13.9%	6.7%	4.0%	15.2%	1.5%	6.0%
FY 2001 ⁽¹⁾	7.2%	13.1%	0.0%	12.7%	15.6%	-10.6%	4.4%
FY 2002 ⁽¹⁾	-6.8%	-0.8%	-2.7%	2.4%	6.4%	-2.6%	-3.1%
FY 2003 ⁽²⁾	8.3%	35.4%	7.3%	9.6%	-2.3%	2.3%	10.1%
FY 2004 ⁽³⁾	0.9%	29.1%	6.1%	1.6%	3.6%	-2.9%	5.6%
FY 2005 ⁽³⁾	1.1%	6.1%	3.6%	0.0%	0.4%	-0.5%	2.0%

⁽¹⁾ Actual, but unaudited expenditures.

⁽²⁾ Estimated, but unaudited expenditures.

⁽³⁾ Actual appropriations as made by the 2003 Session of the General Assembly under HEA 2003-1001.
See "Financial Results of Operations."

Source: State Budget Agency

Local School Aid. Funding for elementary and secondary education is the State's largest operating expense. Local school aid is payable from both the General Fund and PTR Fund and includes distributions for programs such as assessment and performance, as well as tuition support. As a matter of long-standing fiscal policy, the General Assembly funds increases in local school aid above the State base by appropriating one-half of the increases from the General Fund and one-half from the PTR Fund. The General Assembly established the State's calendar year 1972 funding level as the base for local school aid.

Prior to January 1, 2003, the State provided approximately 66% of school corporations' general fund budgets. As a result of the tax restructuring legislation enacted in 2002, the State will now provide approximately 85% of the school corporations' general fund budgets. See "Operating Expenditures—Property Tax Relief."

Local school aid formula funding for tuition support on a school corporation-by-school corporation basis increased by an average of 3.5% for Fiscal Year 2004 and will increase by an average of 1.1% for Fiscal Year 2005 when compared to Fiscal Year 2003 appropriations, with each school corporation receiving a guaranteed minimum increase of 1% in tuition support. Combined local school aid expenditures for Fiscal Year 2002 from the Combined General and PTR Fund totaled \$3,889.5 million, a decrease of 6.8% from Fiscal Year 2001, and constituted 40.1% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. The decrease resulted from a legislatively mandated delay in making local school aid payments in Fiscal Year 2002. Combined local school aid appropriations for Fiscal Year 2003 from the Combined General and PTR Fund total \$4,214.3 million, an increase of 1.4% from Fiscal Year 2002. Estimated expenditures for Fiscal Year 2003 are \$4,214.1 million. Local school aid appropriations for Fiscal Year 2004 from the Combined General and PTR Fund total \$4,253.6 million, an increase of 0.3% from Fiscal Year 2003 appropriations. Local school aid appropriations for Fiscal Year 2005 from the Combined General and PTR Fund total \$4,302.5 million, an increase of 1.1% from Fiscal Year 2004. See "Financial Results of Operations."

Property Tax Relief. Spending for property tax relief primarily consists of the Property Tax Relief Credit ("PTR Credits"), which has traditionally reduced local property taxes by 14% to 15%, and the Homestead Credit,

which reduces residential property taxes by 10%. Property tax relief is payable from the PTR Fund. Such expenditures for Fiscal Year 2002 totaled \$1,209.9 million, a decrease of 0.8% from Fiscal Year 2001, and constituted 12.5% of Combined General and PTR Fund expenditures for Fiscal Year 2002 for this category. Actual expenditures for property tax relief in Fiscal Year 2002 constituted 102.6% of appropriations. This increase in expenditures is a result of changes to the Property Tax Relief Credit, increasing the Homestead Credit to 20%, and increasing local school aid. Property tax relief appropriations for Fiscal Year 2003 totaled \$1,731.4 million, an increase of 46.8% from Fiscal Year 2002. Estimated expenditures for Fiscal Year 2003 are \$1,638.5 million, making property tax relief the second largest operating expenditure. Property tax relief appropriations for Fiscal Year 2004 total \$2,115.2 million, an increase of 22.2% from Fiscal Year 2003. Property tax relief appropriations for Fiscal Year 2005 total \$2,243.9 million, an increase of 6.1% from Fiscal Year 2004.

Legislation passed in 2002 replaces the PTR Credits with a 60% credit for school corporations' general fund tax levy on local property taxes through a State-paid Property Tax Replacement Credit as of January 1, 2003. This measure effectively increases the percentage of local school corporations' general fund budgets paid by the State from approximately 66% to approximately 85%. Additionally, the legislation increased the Homestead Credit from 10% to 20%, beginning in 2003. *See* "Operating Expenditures—Local School Aid."

Higher Education. Through the General Fund, the State supports seven higher education institutions, Ball State University, Indiana University, Indiana State University, Ivy Tech State College, Purdue University, University of Southern Indiana and Vincennes University. Expenditures for higher education for Fiscal Year 2002 totaled \$1,294.7 million, a decrease of 2.7% from Fiscal Year 2001, and constituted 13.3% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. The decrease resulted from a delay in making higher education aid payments in Fiscal Year 2002. Higher education appropriations for Fiscal Year 2003 total \$1,411.1 million, an increase of 0.01% when compared to Fiscal Year 2002; however, estimated expenditures for Fiscal Year 2003 are \$1,389.4 million, making higher education the third largest operating expenditure. Higher education appropriations for Fiscal Year 2004 total \$1,474.4 million, an increase of 4.5% from Fiscal Year 2003. Higher education appropriations for Fiscal Year 2005 total \$1,527.7 million, an increase of 3.6% from Fiscal Year 2004. Appropriations for higher education include money used to pay debt service and other amounts on qualified state university and college debt. *See* "Financial Results of Operations."

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding Student Fee and Building Facilities Fee Bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the policy will continue for outstanding bonds and notes.

The estimated aggregate principal amount of bonds and notes outstanding as of June 30, 2003 for each State university and college eligible for Fee Replacement Appropriations, and the amount of Fee Replacement Appropriations for Fiscal Years 2004 and 2005 are shown below.

Table IV-3
Schedule of Fee Replacement Debt

	Estimated Amount of Debt Outstanding June 30, 2004	Fiscal Year 2004 Fee Replacement Expenditures	Fiscal Year 2005 Fee Replacement Appropriations
Ball State University	\$ 69,470,000	\$ 8,093,255	\$ 8,094,555
Indiana University ⁽¹⁾	405,608,424	48,791,169	53,904,523
Indiana State University	53,555,000	6,549,325	6,549,470
Ivy Tech State College	122,930,000	8,600,301	10,262,578
Purdue University ⁽²⁾	186,515,001	28,358,962	22,899,464
University of Southern Indiana	84,412,205	5,862,166	5,859,415
Vincennes University	<u>19,156,686</u>	<u>1,954,499</u>	<u>2,669,550</u>
Total	\$ <u>941,647,316</u>	\$ <u>108,209,677</u>	\$ <u>110,239,555</u>

⁽¹⁾ Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.

⁽²⁾ Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

Source: Indiana Commission for Higher Education

Medicaid. The fourth largest operating expenditure, payable largely from the General Fund, is the State's share of Medicaid assistance. State General Fund expenditures for Medicaid assistance for Fiscal Year 2004 totaled \$1,138.0 million, an increase of 2.4% from Fiscal Year 2003, and constituted 11.7% of the Combined General and PTR Fund expenditures for Fiscal Year 2004. Actual expenditures for Medicaid assistance in Fiscal Year 2004 constituted 92.7% of appropriations for the category. Estimated expenditures for Medicaid assistance in Fiscal Year 2005 are \$1,350.0 million, resulting in an estimated \$130.9 million shortfall, as shown on Table IV-4. See "Financial Results of Operations."

In Fiscal Year 2003, 25.6% of Medicaid assistance spending was funded from the General Fund. State dedicated funds and Federal funds constitute the balance of Medicaid spending. Nursing home care is the largest component of total Medicaid spending (state and federal), about \$787.2 million for Fiscal Year 2003, an increase of 1.0% from Fiscal Year 2003. Prescription drug costs are the second largest component of total Medicaid spending, with costs of \$732.9 million in Fiscal Year 2003, an increase of 15.7% from Fiscal Year 2003. Hospital services is the third largest component of total Medicaid spending, about \$561.2 million for Fiscal Year 2003, an increase of 7.7% from Fiscal Year 2003.

Medicaid enrollment is one of the most significant drivers of Medicaid costs. Medicaid enrollment steadily increased from 454,643 people in 1998 to 803,722 people in 2004, or at an average annual rate of 7.3%. Enrollment is expected to grow to 833,937 in 2005, or 3.6%.

Correction. The fifth largest operating expenditure, payable almost entirely from the General Fund, is for the Department of Correction. Appropriations for the Department of Correction include funds for incarceration, rehabilitation and parole programs. State General Fund expenditures for Correction for Fiscal Year 2002 totaled \$582.1 million, an increase of 6.4% from Fiscal Year 2001, and constituted 6.0% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. Actual expenditures for Correction in Fiscal Year 2002 constituted 102.9% of appropriations for this category. This increase is a result of transferring the medical services fund from the State Family and Social Services Agency to the Department of Correction. Correction appropriations for Fiscal Year 2003 total \$569.0 million, an increase of 0.5% from Fiscal Year 2002. Estimated expenditures for Correction for Fiscal Year 2003 are \$569.0 million. Correction appropriations for Fiscal Year 2004 total \$589.3 million, an increase of 3.6% from Fiscal Year 2003. Correction appropriations for Fiscal Year 2005 total \$591.4 million, an increase of 0.4% from Fiscal Year 2004.

Population is the most significant driver of Correction expenditures. Correctional population steadily increased from 19,720 in 1998 to 24,230 in 2003, or at an average annual rate of 4.2%.

Other. The balance of State expenditures is composed of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and

developmental disabilities, the State's administrative operations, the State share of public assistance payments, the General Fund share of State Police costs, economic development programs and General Fund expenditures for capital improvements. General Fund expenditures for all other expenditure categories for Fiscal Year 2002 totaled \$1,592.9 million, a decrease of 2.6% from Fiscal Year 2001, and constituted 16.4% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. Actual expenditures for Other Categories in Fiscal Year 2002 constituted 93.7% of appropriations for the category. Other Categories appropriations for Fiscal Year 2003 from the General Fund total \$1,872.5 million, an increase of 10.2% from Fiscal Year 2002. Other Categories appropriations for Fiscal Year 2004 from the General Fund total \$1,581.9 million, a decrease of 15.5% from Fiscal Year 2003. Estimated expenditures for Fiscal Year 2003 are \$1,629.5 million. Other Categories appropriations for Fiscal Year 2005 from the General Fund total \$1,573.9 million, a decrease of 0.5% from Fiscal Year 2004.

Expenditure Limits. In 2002, the General Assembly enacted a law that provides that the maximum annual percentage change in State government expenditures must be based on the percentage change in Indiana non-farm personal income during the past six calendar years. The law excludes expenditures from revenue derived from gifts, federal funds, dedicated funds, intergovernmental transfers, damage awards and property sales. Expenditures from the transfer of funds between the General Fund, the PTR Fund and the Rainy Day Fund, reserve fund deposits, refunds of intergovernmental transfers, state capital projects, judgments and settlements, distributions of specified State tax revenue to local governments and Motor Vehicle Excise Tax replacement payments are also exempt from the expenditure limit. The expenditure limit is applied to appropriations from the General Fund, the PTR Fund and the Rainy Day Fund.

The law directs the Budget Agency to compute a new State spending growth quotient before December 31 in each even-numbered year. The State spending growth quotient is equal to the lesser of the six-year average increase in Indiana non-farm personal income and six percent. The legislation allows the state spending cap to be increased or decreased to account for new or reduced taxes, fees, exemptions, deductions or credits adopted after June 30, 2002. The spending cap limits expenditure increases to 3.5% per annum for each of Fiscal Year 2004 and Fiscal Year 2005.

Fund Balances

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, the Tuition Reserve, the Combined General and PTR Fund and the Medicaid Reserve and Contingency Account. Each of these funds is described below.

Rainy Day Fund. In 1982, the General Assembly established the Counter-Cyclical Revenue and Economic Stabilization Fund, commonly called the "Rainy Day Fund." One of three primary funds into which general purpose tax revenue is deposited, the Rainy Day Fund is essentially a State savings account that permits the State to build up a fund balance during periods of economic expansion for use during periods of economic recession.

Each year the State Budget Director determines calendar year Adjusted Personal Income ("API") for the State and its growth rate over the previous year. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0% and moneys are withdrawn automatically from the Rainy Day Fund if API declines by more than 2.0%. No automatic withdrawal from the Rainy Day Fund has occurred; however, the General Assembly has authorized money to be transferred from the Rainy Day Fund to the General Fund from time to time during periods of economic recession. In addition, the General Assembly has authorized money in the Rainy Day Fund to be used to make loans to local governments from time to time. See "Financial Results of Operations."

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenue is less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal Year, and (b) the amount necessary to maintain a positive balance in the General Fund for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Money in the Rainy Day Fund at the end of a Fiscal Year does not revert to the General Fund. If the balance in the Rainy Day

Fund at the end of a Fiscal Year exceeds 7.0% of total General Fund revenue for the Fiscal Year, the excess is transferred from the Rainy Day Fund to the PTR Fund. *See* Table IV-4 for Rainy Day Fund balances.

Tuition Reserve. The Tuition Reserve is a cash flow device that is intended to assure that the State has sufficient cash to make local school aid payments on time. Prior to each June 1, the Budget Agency estimates and establishes the Tuition Reserve for the ensuing Fiscal Year. *See* Table IV-4 for Tuition Reserve Fund balances.

Medicaid Reserve. In 1995, the General Assembly established the Medicaid Reserve and Contingency Account to provide a reserve to fund timely payments of Medicaid claims, obligations and liabilities. The Medicaid Reserve was designed to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of a Fiscal Year. The Medicaid Reserve is currently unfunded; in 2001, the General Assembly authorized the money in the Medicaid Reserve to be used to fund Medicaid obligations during Fiscal Years 2002 and 2003. *See* Table IV-4 for Medicaid Reserve Fund balances.

Combined General and PTR Fund. The PTR Fund was created by statute in Fiscal Year 1973. It is funded from revenue from the State sales and use tax, a portion of individual income tax receipts and wagering taxes. The PTR Fund is used to (1) replace local property tax levies ("PTR Credits"), which were reduced through PTR Credits under the same statute that created the PTR Fund; and (2) fund local school aid. To the extent the PTR Fund does not have sufficient revenue to make authorized payments, General Fund transfers must be made to the PTR Fund.

The General Fund and the PTR Fund are the primary funds into which general purpose tax revenue, or Operating Revenue, is deposited or transferred. It is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a more complete and accurate description of the State's Operating Revenue and discretionary spending, especially for local school aid and property tax relief. As a result, the General Fund and the PTR Fund are sometimes discussed in this Statement as a single, combined fund.

Financial Results of Operations

Fiscal Years 2002 and 2003. The General Assembly passed a State budget for Fiscal Years 2002 and 2003 that called for Combined General and PTR Fund spending of \$10,211.9 million in Fiscal Year 2002 (an increase of 1.6% from FY 2001), and \$10,497.8 million in Fiscal Year 2003 (an increase of 2.8% from FY 2002). However, as the national economic recession took hold, forecasted Operating Revenue was hard hit. The recession effectively erased approximately \$1,640.0 million of forecasted Operating Revenue during Fiscal Years 2002 and 2003. (Forecasted Operating Revenue does not include dedicated funds and accounts available to be appropriated, and in some cases actually appropriated or authorized to be used for budget purposes.)

Fiscal Year 2002. To address the revenue shortfall and fund the budget in Fiscal Year 2002, the State administration used general statutory authority and measures specifically authorized in the biennial budget, including transfers from the following funds and accounts to the General Fund:

Lottery and Gaming Surplus Account	\$200.0 million
Rainy Day Fund	277.1 million
Medicaid Reserve and Contingency Fund	100.0 million

In addition, the Finance Board authorized transfers from a number of dedicated funds and accounts to the General Fund and the PTR Fund:

Build Indiana Fund	\$247.5 million
Veterans Memorial School Construction Fund	37.0 million
State Highway Fund	30.0 million
Other Dedicated Funds, Accounts	127.0 million

(All but \$45.2 million of the \$441.5 million of Finance Board-authorized transfers were used in Fiscal Year 2002.)

The State also delayed making \$373.8 million of local school aid and higher education payments in Fiscal Year 2002.

In addition to the transfers and payment delays, the State administration required agencies to cut their operating budgets by 7% and implemented hiring and salary freezes, resulting in \$145.1 million of reduced spending in Fiscal Year 2002 (excluding reductions in forecasted Medicaid spending).

At the end of Fiscal Year 2002, the State's Total Combined Balance (General Fund, Rainy Day Fund, Tuition Reserve and Medicaid Reserve and Contingency Fund balances) was \$534.2 million or 6.1% of Operating Revenue (that is, tax revenue, certain fees and DSH revenue deposited in the General Fund or the PTR Fund). *See* Table IV-4 for actual Fiscal Year 2002 results, including actual Operating Revenue, transfers and fund balances.

Fiscal Year 2003. Near the end of Fiscal Year 2002, the General Assembly met in Special Session and passed HEA 1001-2002 (ss), which included a then estimated \$559.7 million in budget relief as well as substantial tax restructuring. Higher sales and use taxes and increased taxes on gaming and tobacco products were designed to address the revenue shortfall, fund the budget and offset much of the cost of the tax restructuring. Streamlined corporate income taxes and the phase out of personal property taxation of business inventories were designed to encourage business investment. Additional property tax relief for homeowners was expected to reduce potentially negative effects of the state-wide property tax reassessment, which is complete in some, but not all, counties. (Property tax relief expenditures are expected to increase in the future.)

Even taking into account forecasted increases in Operating Revenue resulting from the enactment of HEA 1001-2002 (ss), the Fiscal Year 2003 budget continued to be a challenge. The soft economy, threat of war, war, and worse than normal winter weather resulted in lower than forecasted sales and use tax revenue. The State administration again used general statutory authority and measures specifically authorized in the biennial budget to reduce the budget deficit, including fund and account transfers, payment delays (another \$336.7 million in Fiscal Year 2003) and spending cuts. The Budget Agency achieved Fiscal Year 2003 reversions totaling \$323.4 million through reduced spending by State agencies (including holding Medicaid spending to below forecast), and elimination of unspent capital and operating accounts. By the end of Fiscal Year 2003, the State administration reduced Medicaid spending from forecast by \$250.0 million.

At the end of Fiscal Year 2003, the State's Total Combined Balance (General Fund, Rainy Day Fund, Tuition Reserve and Medicaid Reserve and Contingency Fund balances) was \$720.1 million or 7.2% of Operating Revenue (that is, tax revenue, certain fees and DSH revenue deposited in the General Fund or the PTR Fund).

The reserves were higher than estimated at the end of the 2003 session of the General Assembly because the State received \$103.4 million in new federal aid, and property reassessment delays in some Indiana counties meant that property tax relief payments were lower by \$101.1 million.

During Fiscal Year 2003, Indiana received 13.4% more Operating Revenue than it received in Fiscal Year 2002. When revenue generated by tax increases enacted by the General Assembly in June 2002 is subtracted, revenue grew by 1.5%. Growth in Operating Revenue in Fiscal Year 2003 ended a two Fiscal Year period in which actual Operating Revenue decreased.

See Table IV-4 for actual Fiscal Year 2003 results, including State Operating Revenue, transfers and fund balances.

Fiscal Years 2004 and 2005. The General Assembly passed a State budget for Fiscal Years 2004 and 2005 that authorized Combined General and PTR Fund spending of \$11,280.7 million in Fiscal Year 2004 (an increase of 1.9% from Fiscal Year 2003) and \$11,505.8 million in Fiscal Year 2005 (an increase of 2.0% from Fiscal Year 2004).

Budget Challenges. The biennial budget was based on forecasted Fiscal Year 2004 revenue of \$10,692.5 million (an increase of 8.2% from final forecasted Fiscal Year 2003 revenue) and forecasted Fiscal Year 2005 revenue of \$11,192.3 million (an increase of 4.7% from forecasted Fiscal Year 2004 revenue). That

forecast of revenue is referred to below as the “Budget Forecast.” The forecasted revenue increase for Fiscal Year 2004 reflected the implementation of the Fiscal Year 2002 tax increases and expected improvements in the national economy, while the revenue increase for Fiscal Year 2005 primarily reflected expected improvements in the national economy. (If the implementation of the Fiscal Year 2002 tax increases were not taken into account, the increase in forecasted revenue for Fiscal Year 2004 would be 3.1% higher than final forecasted Fiscal Year 2003 revenue.)

The General Assembly authorized more spending than the Budget Forecast would permit. To balance the budget, the General Assembly also authorized the transfer of dedicated funds to the General Fund or the PTR Fund, including:

Rainy Day Fund	\$220.0 million
Pension Stabilization Fund	380.0 million
Public Deposit Insurance Fund	50.0 million
Other Dedicated Funds	57.0 million

In addition, the General Assembly specifically authorized the Budget Agency, with the approval of the Governor and after Budget Committee review, (a) “to withhold allotments of any or all appropriations . . . , if it is considered necessary . . . to prevent a deficit financial situation” and (b) transfer from the Rainy Day Fund to the General Fund “an amount necessary to maintain a positive balance” in the General Fund. (Rainy Day Fund balances may not be sufficient to provide further budget relief.)

Funding the State share of Medicaid assistance and Department of Correction needs are two of the challenges the State administration confronts in managing the biennial budget. The General Assembly effectively maintained Medicaid appropriations for Fiscal Years 2004 and 2005 at Fiscal Year 2003 levels and limited growth in Correction appropriations for the budget biennium. However, \$130.9 million of new federal aid benefited the Medicaid program in Fiscal Year 2004. In addition, another \$103.4 million of federal aid was made available in Fiscal Year 2004 for limited budget relief.

Based on the Budget Forecast and expected additional federal aid, the Budget Agency estimated that the State’s Total Combined Balance would be \$577.9 million or 5.3% of Operating Revenue at the end of Fiscal Year 2004 and \$516.0 million or 4.6% of Operating Revenue at the end of Fiscal Year 2005.

January Forecast. On January 12, 2004, the State’s Technical Forecast Committee revised the Budget Forecast (as revised, the “January Forecast”). The January Forecast indicated that the State would receive \$230.8 million less Operating Revenue in Fiscal Year 2004, and \$222.6 million less Operating Revenue in Fiscal Year 2005 than previously forecast. Most of the reduction in forecasted Operating Revenue was attributable to lower than expected sales and use tax receipts. The Economic Forecast Committee’s January 12 report indicated that, while Indiana’s economy is recovering from the national economic recession, the recovery has not come as quickly or as strongly as anticipated when the Budget Forecast was made.

As a result of the January Forecast, additional property tax relief costs and action taken by the General Assembly in 2004, the Budget Agency estimated that the State’s Total Combined Balance would be \$261.8 million (or 2.5%) of Operating Revenue at the end of Fiscal Year 2004 and \$60.8 million (or 0.6%) of Operating Revenue at the end of Fiscal Year 2005.

Budget Management. After adoption of the biennial budget, the Budget Agency advised State agencies receiving General Fund appropriations that it would reduce through the allotment process (i) 5.0% of each agency’s appropriation for Fiscal Years 2004 and 2005, and (ii) 50.0% of repair and rehabilitation appropriations for such Fiscal Years. This Budget Agency advice was not applied to Medicaid program or Correction expenditures. In addition, the Budget Agency withheld a portion of the repair and rehabilitation appropriations to the State’s universities and colleges.

Fiscal Year 2004 Results

The State ended Fiscal Year 2004 with larger balances than estimated at the time of the January Forecast. This resulted from stronger than estimated Operating Revenue and lower than expected expenditures, including those for Medicaid assistance and property tax relief. At the end of Fiscal Year 2004, the State's Total Combined Balance was \$532.8 million (or 5.0% of Operating Revenue). *See* Table IV-4 for actual Fiscal Year 2004 results, including estimated State Operating Revenue, transfers and fund balances.

Fiscal Year 2004 Revenue v. Fiscal Year 2003 Revenue Growth

The State collected \$739.6 million (or 7.5%) more revenue in Fiscal Year 2004 than it collected in Fiscal Year 2003. *See* "Major General Fund and PTR Fund Revenue Sources."

The State saw substantial growth in sales and use tax, individual income tax and gaming tax revenue during Fiscal Year 2004 when compared with Fiscal Year 2003:

Sales and Use	\$548.6 million (an increase of 13.1%)
Individual Income	163.7 million (4.5%)
Gaming	170.8 million (39.7%)

Increases in sales and use tax and gaming tax revenue primarily reflect the increased sales and use tax rate (effective December 1, 2002) and restructuring of wagering taxes (effective July 1, 2002).

Fiscal Year 2004 corporate income tax and other revenue declined by \$84.5 million (or 11.6%) and \$58.8 million (or 6.5%), respectively. Corporate income taxation was also restructured in Fiscal Year 2002, effective January 1, 2003.

Fiscal Year 2005 Revenue

Through November, the State received \$187.9 million (or 4.5%) more revenue than forecast. Revenue for the first five months of Fiscal Year 2005 (the "Discussion Period") exceeded revenue for the comparable period in Fiscal Year 2004 (the "Comparable Period") by \$357.8 million or (8.9%).

During the Discussion Period, the State collected:

- Increased sales and use tax, individual income tax and corporate income tax revenue, both when compared to the forecast and when compared to the Comparable Period
- \$400,000 (or 0.2%) less gaming revenue when compared to forecast, and \$24.4 million (or 13.2 percent) less gaming revenue when compared to the Comparable Period
- \$2.5 million (0.8%) less other revenue, including cigarette tax revenue, when compared to forecast, but \$3.5 million (or 1.1%) more other revenue, when compared to the Comparable Period.

During the Discussion Period, the State received \$49.9 million in one-time payments of "back taxes" from operators of certain casino riverboat casinos. Even after taking such one-time payments into account, revenue during the Discussion Period exceeded the forecast by \$138.0 million.

Revenue growth in Fiscal Year 2005 set the stage for the Technical Forecast Committee's revised forecast of State revenue for Fiscal Year 2005 on December 14, 2004. As a result of that revised forecast, the Budget Agency estimates that at the end of Fiscal Year 2005, the State's Total Combined Balance will be \$643.0 million (or 5.6% of Operating Revenue). *See* Table IV-4 for estimated Fiscal Year 2005 results, including estimated State Operating Revenue, transfers and fund balances.

Revenue Forecast for Fiscal Years 2006, 2007

At the same time the Technical Forecast Committee (the “Forecast Committee”) revised the Fiscal Year 2005 State revenue forecast, the Forecast Committee presented its initial forecast (the “Initial Forecast”) of State revenue for Fiscal Years 2006 and 2007.

According to the Initial Forecast, State revenue will increase by \$424.3 million (or 3.8%) in Fiscal Year 2006 and \$620.0 million (or 5.3%) in Fiscal Year 2007. For each of the next two Fiscal Years, the Forecast Committee forecasts increases in individual income and sales and use tax revenue, as well as wagering and other tax revenue.

For Fiscal Year 2006, the Forecast Committee forecasts decreased corporate income tax revenue; the decrease results from the substantial one-time payments in Fiscal Year 2005 of “back taxes” received from operators of certain casino riverboats, according to the Forecast Committee. Increased corporate income tax revenue is forecast for Fiscal Year 2007. *See* “Fiscal Year 2005 Revenue.”

Forecast revenue follows:

	FY 2006 (in millions)	
Sales and Use	\$5,187.1	4.6% growth over FY 2005
Individual Income	4,308.8	5.0% growth over FY 2005
Corporate Income	754.6	7.0% decrease from FY 2005
Wagering	641.0	6.9% growth over FY 2005
Other	845.0	0.4% growth over FY 2005
	FY 2007 (in millions)	
Sales and Use	\$5,439.4	4.9% growth over FY 2006
Individual Income	4,586.3	6.4% growth over FY 2006
Corporate Income	777.8	3.1% growth over FY 2006
Wagering	700.0	9.2% growth over FY 2006
Other	853.1	1.0% growth over FY 2006

The Forecast Committee is expected to update the Initial Forecast in April in connection with the finalization of the State budget for Fiscal Years 2006 and 2007.

Combined Balance Statements

Table IV-4 sets forth the Budget Agency’s unaudited end-of-year combined balance statements and estimates and projections, including revenue and other resources, expenditures and balances at the end of each Fiscal Year. For past Fiscal Years, the balances reflect actual revenue and other resources and expenses before adjustments to the modified accrual basis of accounting. As a result, the Budget Agency’s “working” statements may differ from the results included in the 2004 Financial Report or the Auditor of State’s comprehensive annual financial reports for other Fiscal Years, as applicable. Forecasted revenue was developed by the Technical Forecast Committee, and actual revenue may be higher or lower than forecasted. Estimates of other resources and uses were developed by the Budget Agency taking into account historical resources and appropriations as well as other variables, including the budget for Fiscal Years 2004 and 2005.

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Table IV-4
General Fund and Property Tax Replacement Fund
Combined Statement of Net Actual and Estimated Unappropriated Reserve
(Millions of Dollars)

	Actual FY2001	Actual FY2002	Actual FY2003	Actual FY2004	(1) Estimated FY2005
Resources					
Working Balance on July 1	832.6	18.6	0.0	136.6	0.2
Current Year Resources					
Forecast Revenue	9,052.0	8,708.9	9,880.1	10,619.9	11,312.3
DSH Revenue	70.9	87.0	65.0	64.2	52.0
Enrolled Acts 2003	-	-	-	-	-
Enrolled Acts 2004	-	-	-	-	24.5
Other Revenue Sources of Transfers In					
Jobs & Growth Tax Relief Reconciliation Act of 2003	-	-	103.4	103.4	-
Jobs & Growth Tax Relief Reconciliation Act of 2003 (Medicaid)	-	-	-	130.9	-
Transfer from Lottery & Gaming Surplus Acct (BIF)	-	200.0	175.0	-	-
Transfer from Medicaid Reserve to General Fund	103.4	100.0	-	-	-
Transfer from Dedicated Fund Balances	-	396.3	222.0	130.2	85.9
Transfer from Tuition Reserve	-	-	-	14.5	-
Transfer From (To) Rainy Day Fund	46.3	277.1	-	44.3	-
Total Current Year Resources	9,272.6	9,769.3	10,445.5	11,107.4	11,474.7
Total Resources	10,105.2	9,787.9	10,445.5	11,244.0	11,474.9
Uses: Appropriations, Expenditures and Reversions					
Appropriations					
Budgeted Appropriations	10,159.3	10,211.9	11,000.1	11,280.8	11,505.8
Adjustments to Appropriations ⁽²⁾	(15.7)	93.1	22.7	47.5	-
Deficiency Appropriations	66.8	0.1	19.4	-	-
Appropriations Transfer (FY 2000 capital appropriations)	(88.3)	-	-	-	-
Medicaid Shortfall	58.5	-	-	-	121.0
Higher Education, HEA 1196 – 2002	-	-	(29.0)	-	-
K-12 Education, HEA 1196 – 2002	-	-	(119.1)	-	-
Total Appropriations	10,180.6	10,305.1	10,894.0	11,328.3	11,626.8
Other Expenditures and Transfers					
Enrolled Acts 2004	-	-	-	-	20.3
Transfer to Lottery and Gaming Surplus Acct (BIF) (MVET)	-	-	131.8	-	-
Transfer to Tuition Reserve	-	-	40.0	-	-
Undistributed PTRC and Homestead Credit	-	-	(101.1)	-	-
Tuition Support Adjustments	-	-	-	(7.1)	-
PTRC and Homestead Credit Adjustments	-	-	-	(18.4)	18.1
Judgments and Settlements ⁽³⁾	7.0	3.8	6.2	5.4	8.0
Total Appropriations and Expenditures	10,187.6	10,308.9	10,970.9	11,308.2	11,673.2
Payment Delays					
Higher Education Allotment	-	(94.2)	(2.2)	(2.2)	(3.1)
Tuition Support Distribution	-	(279.5)	(20.0)	(0.6)	(0.6)
Property Tax Replacement Credit	-	-	(314.5)	-	-
Reversions	(102.9)	(145.1)	(323.4)	(63.4)	(301.3)
Total Net Uses	10,084.7	9,790.1	10,310.7	11,241.9	11,368.2
Auditor's Adjustment	1.9	(2.2)	(1.8)	1.9	-
General Fund Reserve Balance at June 30	18.6	0.0	136.6	0.2	106.8
Reserved Balances					
Medicaid Reserve	100.0	-	-	-	-
Tuition Reserve	265.0	265.0	305.0	290.5	290.5
Rainy Day Fund ⁽⁴⁾	526.0	269.2	278.5	242.2	245.8
Total Combined Balances	909.6	534.2	720.1	532.8	643.0
Payment Delay Liability	-	(373.8)	(710.5)	(713.3)	(717.0)
Combined Balance as a Percent of Operating Revenue	10.0%	6.1%	7.2%	5.0%	5.6%
Totals may not add as a result of rounding.					

- ¹ Forecasted revenue is based on information provided by the Technical Forecast Committee on December 14, 2004, while other resources and uses are estimated by the Budget Agency.
- ² Adjustments to appropriations by augmentation, transfer and open-ended appropriations and other reconciling adjustments made as part of the end-of-Fiscal Year closing process are shown in total. FY 2003 includes an additional appropriation of \$135.0 million for motor vehicle excise tax-related obligations not met through the Lottery and Gaming Surplus Account.
- ³ Represents the estimated cost to the State of judgments and other legal and equitable claims. No reserve fund is established for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from appropriations or balances. *See* "LITIGATION."
- ⁴ Includes \$27.6 million of loans to local governments authorized by the General Assembly. The loans are illiquid.

Source: State Budget Agency

V. STATE INDEBTEDNESS

Constitutional Limitations on State Debt

Under Article X, Section 5 of the State constitution, the State may not incur indebtedness except to meet casual deficits in revenue; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the State constitution. *See* "FISCAL POLICIES—State Board of Finance."

Other Debt, Obligations

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, however, together with State university and college debt and what are described below as "contingent obligations." In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations are subject to a number of conditions that cannot be predicted at present. *See* "STATE INDEBTEDNESS—Authorized but Unissued Debt."

Obligations Payable from Possible State Appropriations

The General Assembly has created certain financing entities, including the State Office Building Commission, the Indiana Transportation Finance Authority and the Recreational Development Commission, which are each public bodies corporate and politic and separate from the State. These financing entities have been granted the authority to issue revenue bonds and other obligations to finance the construction, reconstruction and equipping of various capital projects. Certain agencies, including the Department of Administration, the Department of Transportation, the Department of Natural Resources and the Indianapolis Airport Authority (under an agreement with the Department of Commerce) have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriations of State funds by the General Assembly. However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bond issued by any such financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and other obligations do not constitute indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

State Office Building Commission. The State Office Building Commission (the "Building Commission") is authorized pursuant to Indiana Code 4-13.5 to issue revenue bonds to finance or refinance the cost of acquiring, constructing and equipping of buildings, structures, improvements or parking areas owned or leased by the Building Commission or the State for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing transportation or parking for State employees or persons having business with State government; (c) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction; (d) providing a building, structure

or improvement for the care, maintenance or treatment of persons with mental or addictive disorders; (e) providing regional health facilities; (f) providing communications system infrastructure; and (g) providing laboratory facilities.

Pursuant to this general authority, as well as specific findings of need and authorizations by the General Assembly, the Building Commission has issued revenue bonds to finance or refinance various projects. For a list of the indebtedness of the Building Commission, *see* “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

The Building Commission also provides short-term, or construction, financing for authorized projects through issuance and sale of “Hoosier Notes.” Hoosier Notes are payable from proceeds of revenue bonds issued by the Building Commission.

Transportation Finance Authority—Highway Financing. The Indiana Transportation Finance Authority (the “TFA”) was established in 1988 under Indiana Code 8-9.5-8, as the successor to the Indiana Toll Finance Authority. The TFA is a body corporate and politic separate from the State. When the General Assembly established the TFA, it enacted Indiana Code 8-14.5, which authorizes the TFA to (a) undertake projects to construct, acquire, reconstruct, improve and extend the State’s highways, bridges, streets and roads; (b) lease such projects to the Indiana Department of Transportation; and (c) issue revenue bonds to finance or refinance such projects.

Pursuant to this authority, the TFA has issued revenue bonds to finance the construction, acquisition, reconstruction, improvement and extension of the State’s highways, bridges, streets and roads throughout Indiana. For a list of the indebtedness of the TFA for Highway Financing, *see* “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

Transportation Finance Authority—Aviation Financing. In 1991, the General Assembly enacted Indiana Code 8-21-12, which authorizes the TFA to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds from time to time. The authorizing legislation defines “aviation related property or facilities” as those properties or facilities that are utilized by a lessee, or a lessee’s assigns, who provides services or accommodations (a) for scheduled or unscheduled air carriers and air taxis and their passengers, air cargo operations and related ground transportation facilities, (b) for fixed based operations, (c) for general aviation or military users and (d) for aviation maintenance and repair facilities.

Airport Facilities. Pursuant to this authority, the TFA issued revenue bonds to finance a portion of the costs of constructing and equipping improvements related to an airport and aviation related property and facilities at the Indianapolis International Airport (the “Airport Facilities”). For a list of the indebtedness of the TFA for Airport Facilities, *see* “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

Aviation Technology Center. In addition, the TFA issued revenue bonds to finance the costs of constructing and equipping an aviation technology center (the “Aviation Technology Center”) at Indianapolis International Airport. For a list of the indebtedness of the TFA for the Aviation Technology Center, *see* “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, *see* “STATE INDEBTEDNESS—Contingent Obligations—Transportation Finance Authority—Toll Road Financing” and Table V-4.

Recreational Development Commission. The Recreational Development Commission (the “Recreation Commission”) was created in 1973 by Indiana Code 14-14-1 and is responsible for the acquisition, construction, improvement, operation and maintenance of public recreational facilities and for facilitating, supporting and promoting the development and use of parks of the State. Pursuant to Indiana Code 14-14-1-21, the Recreation Commission and the State’s Department of Natural Resources (the “DNR”) may enter into agreements setting forth the terms and conditions for the use of park improvements by the DNR and the sums to be paid by the DNR for such use.

Pursuant to this authority, the Recreation Commission issued its revenue bonds to finance and refinance the costs of acquisition, construction, renovation, improvement and equipping of various facilities for public parks in the State (the “Park Projects”). For a list of the indebtedness of the Recreation Commission, *see* “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

Bond Bank. The Indiana Bond Bank issued two series of bonds which are also payable from possible State appropriations. Proceeds of these issues were used to finance or refinance State interests or initiatives, including the State’s Animal Disease and Diagnostic Laboratory (“ADDL”) at Purdue University, West Lafayette, and the Columbus Learning Center (“CLC”), an educational facility to be used by a number of State post-secondary educational institutions to provide services in South Central Indiana. *See* “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, *see* “Contingent Obligations—Indiana Bond Bank” and Table V-4.

Debt Statement—Obligations Payable from Possible State Appropriations

Table V-1 lists, by issuing agency, long-term debt that is subject to possible State appropriations as of June 30, 2003. *See* “Debt Issued in Fiscal Year 2005” and “Authorized but Unissued Debt.”

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Table V-1
Schedule of Long Term Debt
Obligations Payable from Possible State Appropriations

Issuer/Series	Original Par Amount	Ending Balance 6/30/03	(Redeemed)/ Issued	Ending Balance 6/30/04
Building Commission				
Government Center Parking Facilities				
Series 1990A	\$ 26,669,824	\$ 9,183,309	\$ (574,669)	\$ 8,608,640
Series 1993A	42,410,000	29,140,000	(29,140,000)	0
Series 2003A	26,735,000	-	26,735,000	26,735,000
Subtotal	\$ 95,814,824	\$ 38,323,309	\$ (2,979,669)	\$ 35,343,640
Government Center North				
Series 1990B	\$ 77,123,542	\$ 28,484,621	\$ (1,782,251)	\$ 26,702,370
Series 1993B	107,555,000	80,750,000	(80,750,000)	-
Series 2003B	73,205,000	-	73,205,000	73,205,000
Subtotal	\$ 257,883,542	\$ 109,234,621	\$ (9,327,251)	\$ 99,907,370
Government Center South				
Series 1990C	\$ 18,063,800	\$ 6,216,290	\$ (388,290)	\$ 5,828,000
Series 1990D	110,675,000	53,710,000	-	53,710,000
Series 1993C	28,440,000	8,235,000	(8,235,000)	0
Series 2000B	43,400,000	36,100,000	(6,900,000)	29,200,000
Series 2003C	7,835,000	-	7,835,000	7,835,000
Subtotal	\$ 208,413,800	\$ 104,261,290	\$ (7,688,290)	\$ 96,573,000
Other Facilities				
Series 1995A ¹	\$ 54,025,000	\$ 51,865,000	\$ (50,800,000)	\$ 1,065,000
Series 1995B ²	47,975,000	42,755,000	(20,335,000)	22,420,000
Series 1998A ¹	93,020,000	86,305,000	(4,455,000)	81,850,000
Series 1999A ³	96,785,000	87,655,000	(51,295,000)	36,360,000
Series 2000A ⁴	44,800,000	41,600,000	(1,700,000)	39,900,000
Series 2001A ³	66,600,000	66,600,000	(1,800,000)	64,800,000
Series 2002A ⁵	128,110,000	128,110,000	(67,395,000)	60,715,000
Series 2003A ⁶	83,530,000	83,530,000	(35,505,000)	48,025,000
Series 2003B ⁷	31,930,000	-	31,930,000	31,930,000
Series 2003C ¹	55,075,000	-	55,075,000	55,075,000
Series 2003D ²	20,475,000	-	20,475,000	20,475,000
Series 2004A ³	46,180,000	-	46,180,000	46,180,000
Series 2004B ⁵	61,890,000	-	61,890,000	61,890,000
Series 2004C ⁶	33,950,000	-	33,950,000	33,950,000
Subtotal	\$ 864,345,000	\$ 588,420,000	\$ 16,215,000	\$ 604,635,000
TOTAL SOBC	\$ 1,426,457,166	\$ 840,239,220	\$ (3,780,210)	\$ 836,459,010
Transportation Finance Authority				
Highway Revenue Bonds				
Series 1990A	\$ 72,498,391	\$ 32,700,877	\$ (1,519,609)	\$ 31,181,268
Series 1992A	74,035,000	35,285,000	-	35,285,000
Series 1993A	193,531,298	131,891,298	(7,660,000)	124,231,298
Series 1996B	27,110,000	23,235,000	(2,845,000)	20,390,000
Series 1998A	175,360,000	169,010,000	(3,395,000)	165,615,000
Series 2000A	269,535,000	267,035,000	(2,500,000)	264,535,000
Series 2003A	431,585,000	-	431,585,000	431,585,000
Series 2004A	320,550,000	-	320,550,000	320,550,000
Subtotal	\$ 1,564,204,689	\$ 659,157,175	\$ 734,215,391	\$ 1,393,372,566
Airport Facilities Bonds				
Series 1992A	\$ 201,320,000	\$ 40,075,000	\$ (7,060,000)	\$ 33,015,000
Series 1995A	29,720,000	25,735,000	(1,070,000)	24,665,000
Series 1996A	137,790,000	136,250,000	(835,000)	135,415,000
Subtotal	\$ 368,830,000	\$ 202,060,000	\$ (8,965,000)	\$ 193,095,000
Aviation Technology Bonds				
Series 2002A	\$ 10,095,000	\$ 10,095,000	\$ (265,000)	\$ 9,830,000
Subtotal	\$ 10,095,000	\$ 10,095,000	\$ (265,000)	\$ 9,830,000
TOTAL TFA	\$ 1,943,129,689	\$ 871,312,175	\$ 724,985,391	\$ 1,596,297,566
Recreation Commission				
Series 1994	\$ 19,285,000	\$ 7,775,000	\$ (170,000)	\$ 7,605,000
Series 1997	6,600,000	5,555,000	(235,000)	5,320,000
Series 2002	14,400,000	14,400,000	-	14,400,000
Subtotal	\$ 40,285,000	\$ 27,730,000	\$ (405,000)	\$ 27,325,000

TOTAL RDC	\$ 40,285,000	\$ 27,730,000	\$ (405,000)	\$ 27,325,000
Bond Bank				
Series 1998B ⁸	\$ 10,830,000	\$ 7,285,000	\$ (725,000)	\$ 6,560,000
Series 2003D ⁹	27,515,000	27,515,000		27,515,000
Subtotal	\$ 38,345,000	\$ 34,800,000	\$ (725,000)	\$ 34,075,000
TOTAL BOND BANK	\$ 38,345,000	\$ 34,800,000	\$ (725,000)	\$ 34,075,000
TOTAL ALL BONDS	\$ 3,448,216,855	\$ 1,774,081,395	\$ 720,075,181	\$ 2,494,156,576

¹	Wabash Valley Correctional Facility
²	Rockville Correctional Facility
³	Miami Correctional Facility
⁴	Pendleton Juvenile Correctional Facility
⁵	New Castle Correctional Facility
⁶	Indiana State Museum
⁷	Evansville State Hospital
⁸	Animal Disease and Diagnostic Laboratory (ADDL)
⁹	Columbus Learning Center (CLC)

Source: State Budget Agency (as of June 30, 2004)

Debt Service Schedule—Obligations Payable from Possible State Appropriations

Table V-2 lists principal and interest payments payable from possible State appropriations (not including debt that has been defeased) as of June 30, 2004. See “Debt Issued in Fiscal Year 2005” and “Authorized but Unissued Debt.”

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Table V-2
Scheduled Principal and Interest Payments
Payable from Possible State Appropriations

Issuer/Series	FY 2005	FY 2006	FY 2007	FY 2008	Thereafter
Building Commission					
Government Center Parking					
Series 1990A	\$ 1,948,050	\$ 1,948,050	\$ 1,948,050	\$ 1,948,050	\$ 10,869,525
Series 2003A	1,536,213	3,704,525	3,702,775	3,696,763	19,559,806
Subtotal	\$ 3,484,263	\$ 5,652,575	\$ 5,650,825	\$ 5,644,813	\$ 30,429,331
Government Center North					
Series 1990B	\$ 6,041,880	\$ 6,041,880	\$ 6,041,880	\$ 6,041,880	\$ 33,716,040
Series 2003B	3,728,553	8,615,990	8,633,928	8,580,178	68,255,966
Subtotal	\$ 9,770,433	\$ 14,657,870	\$ 14,675,808	\$ 14,622,058	\$ 101,972,006
Government Center South					
Series 1990C	\$ 1,317,090	\$ 1,317,090	\$ 1,317,090	\$ 1,317,090	\$ 7,360,885
Series 1990D	3,705,990	3,705,990	10,976,205	10,953,868	43,616,533
Series 2000B ⁽¹⁾	8,461,500	8,319,000	976,500	1,065,000	17,808,000
Series 2003C	340,863	877,813	877,625	875,488	6,964,194
Subtotal	\$ 13,825,443	\$ 14,219,893	\$ 14,147,420	\$ 14,211,446	\$ 75,749,612
Other Facilities					
Series 1995A ¹	\$ 559,588	\$ 558,489	\$ -	\$ -	\$ -
Series 1995B ²	2,839,295	2,835,035	1,206,875	1,206,875	25,726,563
Series 1998A ¹	8,560,298	8,554,491	8,530,004	8,538,279	76,523,288
Series 1999A ³	4,856,663	3,476,138	5,398,750	5,393,594	32,449,638
Series 2000A ^{(a) 4}	4,000,500	3,993,000	3,979,500	3,865,500	45,447,000
Series 2001A ^{(a) 3}	5,675,488	5,662,877	5,637,321	5,706,425	84,123,950
Series 2002A ⁵	2,928,511	2,978,511	7,622,418	7,618,499	70,138,206
Series 2003A ⁶	3,145,640	2,285,115	5,095,203	5,065,465	57,811,948
Series 2003B ⁷	1,647,631	1,385,858	2,555,584	2,555,123	43,051,355
Series 2003C ^{(a) 1}	1,101,500	1,101,500	3,243,306	3,304,500	88,212,250
Series 2003D ^{(a) 2}	409,500	409,500	1,424,000	3,155,000	28,364,500
Series 2004A ³	1,959,989	2,416,425	2,470,875	2,479,675	61,165,163
Series 2004B ⁵	2,635,483	3,249,225	3,249,225	3,249,225	41,861,725
Series 2004C ⁶	1,443,198	1,779,285	1,779,285	1,779,285	51,260,808
Subtotal	\$ 41,763,284	\$ 40,685,449	\$ 52,192,345	\$ 53,917,445	\$ 706,136,394
TOTAL SOBC	\$ 68,843,423	\$ 75,215,787	\$ 86,666,398	\$ 88,395,762	\$ 914,287,343
TFA					
Highway Revenue Bonds					
Series 1990A	\$ 6,150,288	\$ 4,255,288	\$ 4,095,288	\$ 3,940,288	\$ 37,909,913
Series 1992A	2,399,380	2,399,380	2,399,380	2,399,380	49,111,610
Series 1993A	13,858,773	12,608,425	12,608,850	12,620,300	165,155,113
Series 1996B	3,981,450	3,961,450	3,958,550	3,947,125	7,879,250
Series 1998A	12,088,328	18,669,828	18,676,448	18,790,148	131,056,541
Series 2000A	16,982,801	14,425,301	14,425,301	14,425,301	463,706,180
Series 2003A	25,790,359	30,714,859	31,683,859	31,691,271	633,482,361
Series 2004A	16,333,300	16,752,103	16,752,103	16,752,103	629,443,988
Subtotal	\$ 97,584,678	\$ 103,786,633	\$ 104,599,778	\$ 104,565,916	\$ 2,117,744,956
Airport Facilities Bonds					
Series 1992A	\$ 9,704,613	\$ 10,040,600	\$ 1,026,875	\$ 1,026,875	\$ 24,131,563
Series 1995A	2,512,723	2,558,995	2,558,945	2,558,308	25,397,030
Series 1996A	8,220,583	8,218,060	17,213,900	17,196,700	138,777,950
Subtotal	\$ 20,437,918	\$ 20,817,655	\$ 20,799,720	\$ 20,781,883	\$ 188,306,543
Aviation Technology Bonds					
Series 2002A	\$ 955,765	\$ 955,495	\$ 952,614	\$ 952,233	\$ 10,491,916
Subtotal	\$ 955,765	\$ 955,495	\$ 952,614	\$ 952,233	\$ 10,491,916
TOTAL TFA	\$ 118,978,360	\$ 125,559,783	\$ 126,352,112	\$ 126,300,032	\$ 2,316,543,415
Recreation Commission					
Series 1994	\$ 648,008	\$ 661,595	\$ 678,483	\$ 693,370	\$ 9,517,641
Series 1997	523,869	521,616	523,555	519,805	5,698,390
Series 2002	608,870	887,400	1,333,118	1,396,105	16,205,533
Subtotal	\$ 1,780,746	\$ 2,070,611	\$ 2,535,156	\$ 2,609,280	\$ 31,421,564
TOTAL RDC	\$ 1,780,746	\$ 2,070,611	\$ 2,535,156	\$ 2,609,280	\$ 31,421,564

Bond Bank						
Series 1998B	⁸	\$ 1,042,434	\$ 1,044,740	\$ 1,039,845	\$ 1,042,698	\$ 3,652,388
Series 2003D	⁹	1,306,450	1,306,450	1,306,450	1,306,450	41,493,856
Subtotal		\$ 2,348,884	\$ 2,351,190	\$ 2,346,295	\$ 2,349,148	\$ 45,146,244
TOTAL BOND BANK		\$ 2,348,884	\$ 2,351,190	\$ 2,346,295	\$ 2,349,148	\$ 45,146,244
TOTAL ALL BONDS		\$ 191,951,413	\$ 205,197,371	\$ 217,899,961	\$ 219,654,222	\$ 3,307,398,566

(a) Debt service on variable rate debt is determined by assuming an interest rate of 6%.

- ¹ Wabash Valley Correctional Facility
- ² Rockville Correctional Facility
- ³ Miami Correctional Facility
- ⁴ Pendleton Juvenile Correctional Facility
- ⁵ New Castle Correctional Facility
- ⁶ Indiana State Museum
- ⁷ Evansville State Hospital
- ⁸ Animal Disease and Diagnostic Laboratory (ADDL)
- ⁹ Columbus Learning Center (CLC)

Source: State Budget Agency (as of June 30, 2004)

Debt Ratios

Historically, Indiana's debt burden has remained well below the national average and compares favorably with its regional peers. The ratios of outstanding debt subject to possible State appropriation to population and personal income for the past nine years are reflected in Table V-3. The ratios do not reflect any state university or college indebtedness or contingent obligations.

Table V-3
Ratios of Outstanding Debt Subject to Possible Appropriation
to Population and Personal Income

Fiscal Year	Population	Personal Income ⁽¹⁾	Outstanding Debt Subject to Appropriation	Debt/Capita ⁽²⁾	Debt/Income ⁽³⁾
1994	5,745,626	120,278	1,030,787,646	179	0.9
1995	5,791,819	125,269	1,036,962,646	179	0.8
1996	5,834,908	132,103	1,119,537,646	192	0.8
1997	5,872,370	138,794	1,116,717,640	190	0.8
1998	5,907,617	149,336	1,240,092,643	210	0.8
1999	5,942,901	154,842	1,228,372,647	207	0.8
2000	6,080,485	165,285	1,569,341,152	258	0.9
2001	6,126,470	169,204	1,624,466,887	265	1.0
2002	6,156,913	172,592	1,713,027,121	278	1.0
2003	6,195,643	178,327	1,774,081,395	286	1.0

(1) Personal Income is expressed in millions of dollars.

(2) According to Moody's 2003 State Debt Medians, the median debt per capita for all states was about \$606

(3) According to Moody's 2003 State Debt Medians, the median percentage for all states was about 2.2%

Source: United States Bureau of Census for population, United States Department of Commerce, Bureau of Economic Analysis for personal income, and State Budget Agency for outstanding debt.

Debt Issued in Fiscal Year 2005

Since June 30, the following debt was issued:

- \$12,780,000 Indiana Recreational Development Commission Revenue Bonds, Series 2004, to refund for debt service savings all the then outstanding Series 1994 bonds of the Recreational Development Commission and fund a portion of the Clifty Inn project at Clifty Falls State Park, near Madison, in Jefferson County
- \$33,995,000 Indiana State Office Building Commission Facilities Revenue Bonds, Series 2004D, to fund the Isaac Ray treatment facility project at Logansport State Hospital
- \$57,005,000 Indiana State Office Building Commission Facilities Revenue Bonds, Series 2004E,

- to fund the Southeast Regional Treatment Facility, in Madison, Jefferson County
- \$147,345,000 Indiana Transportation Finance Authority Highway Revenue Refunding Bonds, Series 2004B, to refund for debt service savings certain of the outstanding Series 2000 and 2003A bonds of the Transportation Finance Authority
- \$146,080,000 Indiana Transportation Finance Authority Highway Revenue Refunding Bonds, Series 2004C, to refund for debt service savings certain of the Series 1998A, 2000 and 2003A bonds of the Transportation Finance Authority.

In addition, in November, the Transportation Finance Authority issued \$15,500,000 Airport Facilities Taxable Note, Series 2004A, and used most of the proceeds to purchase certain assets from ATA Airlines, Inc., a debtor-in-possession under the United States Bankruptcy Code. The Authority then leased such assets to the Indianapolis Airport Authority for sublease to ATA. The Authority retired the note on December 28, 2004.

Authorized but Unissued Debt

State Office Building Commission. The General Assembly authorized the Building Commission to issue bonds to finance State facilities, including:

- Two additional regional mental health facilities
- State-wide public safety communications network
- Laboratories for the State Police, Department of Health and Department of Toxicology

The Building Commission is working with the Family and Social Services Administration on planning for the two additional regional mental health facilities.

The first phase of the public safety communications network (Project Hoosier SAFE-T) is under construction and is expected to be complete in the first quarter of 2005. The estimated construction cost is \$30.0 million. The Building Commission is working with the Integrated Public Safety Commission on planning and design of the remaining phase or phases.

The Building Commission is designing the laboratories and anticipates construction will begin in May 2004 with completion two years later. The estimated construction cost is \$55.2 million.

The Building Commission initially will provide short-term, or construction, financing for the two additional mental health facilities and laboratories through the Building Commission's "Hoosier Notes" commercial paper program. The Building Commission is authorized to issue not to exceed \$150.0 million of Hoosier Notes for projects authorized by the General Assembly. It is anticipated that the Building Commission will issue Hoosier Notes for the public safety communications network.

Transportation Finance Authority. In late December 2004 and in early January 2005, the Transportation Finance Authority expects to issue Airport Facilities Lease Revenue Bonds primarily to refund for debt service savings all the outstanding Series 1992, 1995 and 1996 Airport Facilities Lease Revenue Bonds of the Authority.

Refundings. The State's Office of Public Finance monitors refinancing opportunities for the Building Commission, the TFA, the Recreation Commission and the Development Finance Authority. As a result, one or more issuers may issue refunding bonds from time to time to restructure outstanding indebtedness or achieve debt service savings.

Contingent Obligations

Certain State-authorized entities, including the Indiana Transportation Finance Authority, Indiana Bond Bank and the Indiana Development Finance Authority, have issued obligations that, in certain circumstances, may include payment of State funds. Such payments, if needed, are not mandatory and no one may compel the General Assembly to appropriate moneys to make them. The leases and other obligations of such entities do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

Transportation Finance Authority—Toll Road Financing. The TFA and its predecessors issued revenue bonds (“Toll Road Bonds”) to finance and refinance the construction and improvement of the 156-mile Indiana East-West Toll Road (the “Toll Road”) in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. For a list of the indebtedness of the TFA for Toll Road Financing, *see* “Schedule of Long-Term Debt—Contingent Obligations.”

The Indiana Department of Transportation (“INDOT”) entered into a lease agreement for the Toll Road (the “Toll Road Lease”) with the TFA. INDOT is obligated to fix and collect tolls to meet the requirements of the Toll Road Lease; that is, to pay (a) operating expenses, (b) rent to the TFA (for payment of debt service on Toll Road Bonds) and (c) expenses of major repairs, improvements and equipment. The base rent is subject to increase if debt service increases as a result of the issuance of additional Toll Road Bonds. Any excess revenue collected by INDOT is payable to the TFA as additional rent.

In the event Toll Road revenue is insufficient in any year to meet the requirements of the Toll Road Lease, INDOT is obligated under the Toll Road Lease to take steps to remedy the insufficiency, including increasing toll rates and reducing operating expenses. If such measures are inadequate, INDOT is required, within 30 days, to report the amount of the insufficiency to, and seek the approval of the State Budget Agency for a request to the General Assembly for an appropriation to the extent of such insufficiency. Nothing in the Toll Road Lease or in Indiana Code 8-9.5-8 or 8-15 creates a debt or an obligation that requires the State to make any appropriations to or for the use of the TFA or INDOT.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, *see* “Obligations Payable from Possible State Appropriations—Transportation Finance Authority-Highway Financing” and “Transportation Finance Authority—Aviation Financing.”

Indiana Bond Bank. The Indiana Bond Bank (the “Bond Bank”), a body corporate and politic, was created in 1984 pursuant to Indiana Code 5-1.5. The Bond Bank is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The purpose of the Bond Bank is to buy and sell securities and to make loans to local governments and other qualified entities as defined in Indiana Code 5-1.5-1-8. The Bond Bank is empowered to issue bonds or notes which are payable solely from revenue and funds that are specifically allocated for such purpose. Pursuant to Indiana Code 5-1.5-5, to assure maintenance of a debt service reserve in any reserve fund required for Bond Bank bonds or notes, the General Assembly may, but is under no obligation to, appropriate to the Bond Bank for deposit in one or more of such funds the sum that is necessary to restore that fund to its required debt service reserve. If at the end of any Fiscal Year the amount in any reserve fund exceeds the required debt service reserve, any amount representing earnings or income received on account of any money appropriated to the reserve fund that exceeds the expenses of the Bond Bank for that year may be transferred to the General Fund.

Bonds or notes issued by the Bond Bank with a debt service reserve under Indiana Code 5-1.5-5 are considered “moral obligation bonds”; however, bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security of bonds and issued by the Bond Bank, and a debt service reserve fund replacement appropriation would only be requested in the event that the particular designated sources were insufficient.

By statute, the total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is limited by statute to \$1.0 billion plus (a) not to exceed \$200.0 million for certain qualified entities that operate as rural electric membership corporations or as corporations engaged in the generation and transmission of electric energy, and (b) not to exceed \$30.0 million for certain qualified entities that operate as telephone cooperative corporations. However, these limits do not apply to bonds or notes or other obligations not secured by a reserve fund that is subject to Indiana Code 5-1.5-5.

For a list of Bond Bank bonds that are eligible for debt service reserve fund replacement appropriations, *see* “Schedule of Long Term Debt—Contingent Obligations.”

Development Finance Authority. The Indiana Development Finance Authority (the “Development Finance Authority”), a body politic and corporate, was established in 1990 under Indiana Code 4-4-11 as successor to the Indiana Employment Development Commission, Indiana Agricultural Development Corporation and Indiana Export Finance Authority. The Development Finance Authority is not a State agency, but an independent instrumentality of the State exercising essential public functions. The public purposes of the Development Finance Authority are to (a) promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects; (c) promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises; (d) prevent and remediate environmental pollution by the promotion and development of industrial development projects; and (e) promote affordable childcare financing.

The Development Finance Authority is permitted by law to issue conduit and certain other types of revenue bonds to finance projects that serve these public purposes. Except as listed in Table V-4, the Development Finance Authority’s revenue bonds are payable solely from revenue of the Development Finance Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Development Finance Authority or the State, nor are they payable in any manner from revenue raised by taxation. The Development Finance Authority has no power to levy taxes.

Pursuant to this authority, the Development Finance Authority issued taxable economic development revenue bonds for Steel Dynamics, Inc. (the “Steel Dynamics Bonds”), Qualitech Steel Corporation (the “Qualitech Bonds”), and Heartland Steel, Inc. (the “Heartland Bonds”). Each of these bond issues is secured in part by a debt service reserve fund established exclusively for the related bond issue. The Qualitech Bonds and the Heartland Bonds bear interest at a variable rate and are also secured by direct-pay letters of credit issued by a commercial bank. The Development Finance Authority agreed that the Development Finance Authority would seek appropriations from the General Assembly to fund debt service on the Steel Dynamics Bonds, the Qualitech Bonds and the Heartland Bonds under certain circumstances.

Qualitech Steel, the obligor on the Qualitech Bonds, and Heartland Steel, the obligor on the Heartland Bonds, are bankrupt, and a bankruptcy court has relieved them of their obligations to make debt service payments on their indebtedness. As a result, the Development Finance Authority is paying the Qualitech Bonds and the Heartland Bonds, using appropriations made by the General Assembly.

The Steel Dynamics Bonds were redeemed and replaced with a loan from one or more commercial banks. The debt service reserve fund established for the Steel Dynamics Bonds remained in place, together with the Development Finance Authority’s agreement to seek State appropriations to fund debt service under certain circumstances. The State has been advised that Steel Dynamics fully paid the loan, thereby extinguishing the Development Finance Authority’s obligations with respect to that loan.

The Steel Dynamics Bonds financed a portion of the State’s incentives for a substantial economic development project in DeKalb County. Steel Dynamics continues to operate that project. The Qualitech Bonds financed a portion of the State’s incentives for a substantial economic development project in Hendricks County. Steel Dynamics purchased that project, and Steel Dynamics is now operating the project. (Steel Dynamics is in no way obligated to pay the Qualitech Bonds.) The Heartland Bonds financed a portion of the State’s incentives for a substantial economic development project in Vigo County (Terre Haute). A multi-national steel company is now operating that project. (The multi-national steel company is in no way obligated to pay the Heartland Bonds.)

See Table V-4.

Debt Statement—Contingent Obligations

Table V-4 lists the long term debt classified as contingent obligations that was outstanding on June 30, 2004. Debt classified as a contingent obligation is debt for which the issuing entity has agreed to, under certain circumstances, request an appropriation from the General Assembly to replenish a debt service reserve fund. See “Schedule of Long Term Debt—Contingent Obligations.”

Table V-4
Schedule of Long Term Debt
Contingent Obligations

Issuer/Series	Original Amount	Ending Balance 6/30/03	(Redeemed)/ Issued	Ending Balance 6/30/04
Transportation Finance Authority				
Toll Road Bonds				
Series 1985	\$ 256,970,000	\$ 26,200,000	\$ -	\$ 26,200,000
Series 1987	184,745,000	44,340,000	-	44,340,000
Series 1993	76,075,000	30,140,000	(9,595,000)	20,545,000
Series 1996	134,795,000	129,355,000	(2,865,000)	126,490,000
ITFA TOTAL	\$ 652,585,000	\$ 230,035,000	\$ (12,460,000)	\$ 217,575,000
Bond Bank				
Special Program Pool				
Series 1993A	\$ 7,975,000	\$ 5,880,000	\$ (5,880,000)	\$ -
Series 1993B	14,915,000	11,400,000	(11,400,000)	-
Series 1994B	8,475,000	5,930,000	(5,930,000)	-
Series 1995A	4,540,000	3,510,000	(195,000)	3,315,000
Series 1995A	13,280,000	11,010,000	(395,000)	10,615,000
Series 1997A	6,295,000	5,570,000	(185,000)	5,385,000
Series 1997B	22,855,000	18,760,000	(18,760,000)	-
Series 1997C	5,010,000	5,010,000	(230,000)	4,780,000
Series 1998A	6,485,000	5,915,000	(180,000)	5,735,000
Series 2000A	31,495,000	30,800,000	(730,000)	30,070,000
Series 2000A (Refunding)	32,860,000	11,745,000	(1,995,000)	9,750,000
Series 2001A (Refunding)	20,840,000	18,240,000	(1,220,000)	17,020,000
Series 2001A	7,055,000	6,550,000	(525,000)	6,025,000
Series 2001B	9,500,000	9,040,000	(470,000)	8,570,000
Series 2002A	42,910,000	42,660,000	(945,000)	41,715,000
Series 2002C	3,940,000	3,845,000	(415,000)	3,430,000
Series 2002D	60,000,000	58,910,000	(1,120,000)	57,790,000
Series 2002E	10,155,000	10,155,000	(250,000)	9,905,000
Series 2003B	8,885,000	8,885,000	(345,000)	8,540,000
Series 2003A	40,385,000	40,385,000	-	40,385,000
Series 2003C	10,425,000	10,425,000	(895,000)	9,530,000
Series 2003E	36,530,000	36,530,000	-	36,530,000
Series 2003F-1	17,155,000	17,155,000	(855,000)	16,300,000
Series 2003F-2	1,175,000	-	1,175,000	1,175,000
Series 2004A	17,210,000	-	17,210,000	17,210,000
Series 2004B	17,590,000	-	17,590,000	17,590,000
Series 2004B	35,010,000	-	35,010,000	35,010,000
IBB TOTAL	\$ 492,950,000	\$ 378,310,000	\$ 18,065,000	\$ 396,375,000
Development Finance Authority				
Qualitech Steel	\$ 33,100,000	\$ 26,300,000	\$ (1,300,000)	\$ 25,000,000
Steel Dynamics	21,400,000	15,300,000	(1,300,000)	14,000,000
Heartland Steel	13,800,000	11,400,000	(500,000)	10,900,000
IDFA TOTAL	\$ 68,300,000	\$ 53,000,000	\$ (3,100,000)	\$ 49,900,000
TOTAL ALL BONDS	\$ 1,213,835,000	\$ 607,660,000	\$ 57,045,000	\$ 663,820,000

Source: State Budget Agency (as of June 30, 2004)

Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenue and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. Any such debt does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

<u>Entity</u>	<u>Statute</u>	<u>Purpose of Debt Issuance</u>
Board for Depositories	I.C. 5-13-12 Recodified 1987	Provide guarantees for industrial development or credit enhancement for Indiana enterprises
Indiana Educational Facilities Authority	I.C. 29-1263 Established 1979	Provide funds for projects to be leased to private institutions of higher learning
Indiana Health Facility Financing Authority ⁽¹⁾	I.C. 5-1-16 Established 1983	Provide health facilities with means for financing equipment and property acquisitions
Indiana Housing Finance Authority ⁽²⁾	I.C. 5-20-1 Established 1978	Provide funds for construction or mortgage loans for federally assisted multi-family or for low and moderate income residential housing
Indiana Political Subdivision Risk Management Commission	I.C. 27-1-29 Established 1986	Provide funds to aid political subdivisions protection against liabilities
Indiana Port Commission	I.C. 8-10-1 Established 1961	Provide funds to finance and construct, a broad variety of projects, including public ports, throughout Indiana
Indiana Secondary Market for Education Loans, Inc. ⁽³⁾	I.C. 20-12-21.2 Authorized 1980	Provide funds for secondary market for higher education loans
Intelenet Commission	I.C. 5-21-1 Established 1986	Provide funds for a State-wide integrated telecommunications network
Indiana State Fair Commission	I.C. 15-1.5-1 Established 1990	Provide funds for construction, repair and refurbishing of State fairgrounds
Indiana White River State Park Development Commission	I.C. 14-3-1 Established 1979	Provide funds for establishment and development of park, exposition, educational, athletic and recreational projects on the White River in downtown Indianapolis

⁽¹⁾ Originally the Indiana Hospital Equipment Financing Authority

⁽²⁾ Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds. The Indiana Housing Finance Authority has not issued and does not currently expect to issue any such bonds.

⁽³⁾ A not-for-profit corporation authorized by the General Assembly.

VI. STATE RETIREMENT SYSTEMS

There are four major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund, the State Judges' Retirement System and the State Police Fund. In addition, the State maintains and appropriates moneys to several other retirement plans. Under law, each board administering a retirement system is required to periodically make an actuarial investigation into the mortality, service and compensation or salary experience of the members of the system and their beneficiaries and make a valuation of the

assets and liabilities of the retirement benefits in any year in which the retirement fund law is amended in any manner which affects the benefits payable.

Public Employees' Retirement Fund

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. PERF is governed by Indiana Code 5-10.2 and 5-10.3 and is administered by a five member Board of Trustees appointed by the Governor. PERF is the State's largest pension fund and has management responsibility for pension assets of State employees, local government units, the Judges' Retirement System, Legislators' Retirement System, Prosecutors' Retirement System, municipal police and fire units and State conservation and excise officials. On July 1, 2002, there were 207,935 active and retired members participating in PERF from State and local government with assets totaling \$8,272,987,693.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF. The PERF benefit consists of (1) a pension formula benefit based upon years of service and final average salary, and (2) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, the State "picked up" and now pays the employee contributions for State employees to PERF.

Contributions are made to PERF by the State and local units determined by normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations. The State is responsible for making contributions for State employee members only. Funding for PERF is included as part of the expenditures for fringe benefits by each State agency. The table below highlights the funded status and contribution history for the State portion of PERF for the last five valuation dates.

Table VI-1
Public Employees' Retirement Fund
(State-Related Portion Only)

As of July 1,	1999	2000	2001*	2002	2003
Funded Status					
Actuarial Value of Assets	\$ 1,828,584,443	\$ 1,960,018,018	\$ 2,063,626,964	\$ 2,061,789,940	\$ 2,078,952,509
Actuarial Accrued Liability	1,583,485,563	1,701,091,436	1,896,505,744	2,010,177,846	1,860,101,326
Unfunded/(Overfunded)	(245,098,880)	(258,926,582)	(167,121,220)	(51,612,904)	(218,857,183)
AAS					
Funded Ratio	115.5%	115.2%	108.8%	102.6%	111.8%
Contribution History					
Annual Required Contribution	\$ 67,481,016	\$ 61,761,627	\$ 66,559,482	\$ 72,332,921	\$ 79,641,040
Actual Employer Contribution	77,821,378	84,353,750	76,218,663	77,420,077	80,795,703
Contribution Rate**	5.0%	5.0%	5.2%	5.6%	3.8%

* Revised actuarial assumptions as a result of experience review completed in December 2001 for Plan years 1995-2000.

** Contribution rate is set using the most recently completed actuarial valuation to go into effect the next fiscal year.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2003.

Other State Plans

The State appropriates moneys to several other retirement plans that are administered by the PERF Board of Trustees. These include the Judges' Retirement System, the Legislators' Defined Benefit Plan, the Excise Police and Conservation Enforcement Officers' Retirement Plan and the Prosecuting Attorneys' Retirement Fund. Table VI-2 highlights the actuarial valuation findings for these plans as of July 1, 2002.

Table VI-2
Other State Plans Pension Funds
Summary of Results of Actuarial Valuation
(as of July 1, 2003)

	Judge's Retirement System	Legislators' Defined Benefit Plan	Excise Police & Conservation Officers' Retirement Plan	Prosecuting Attorney's Retirement Fund
<u>Funded Status</u>				
Actuarial Value of Assets	\$ 126,151,673	\$ 4,199,696	\$ 37,286,105	\$ 12,757,858
Actuarial Accrued Liability	206,846,323	4,947,897	52,006,444	15,685,300
Unfunded/(Overfunded) AAL	80,694,650	748,201	14,720,339	2,927,442
Funded Ratio	60.1%	84.9%	71.7%	81.3%
<u>Contribution History*</u>				
Annual Required Contribution	\$ 9,561,180	\$ 233,645	\$ 2,323,722	\$ 1,129,480
Actual Employer Contribution	13,275,820	186,713	1,951,517	446,040

* Contribution History is for Plan Year 2003

Source: Actuarial Valuation Reports, July 1, 2003

The PERF Board of Trustees also administers a local police officers' and firefighters' pension and disability fund for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

In addition, the PERF Board of Trustees administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenue provided by cities and towns and by plan members' contributions. Cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue, Hoosier Lottery profits and investment earnings on the Public Deposit Insurance Fund. From time to time, the General Assembly has also appropriated general and dedicated funds to pension relief. During Fiscal Year 2002, \$168.8 million was expended from the pension relief fund, and on June 30, 2002, the pension relief fund balance was \$426.9 million.

State Teachers' Retirement Fund

The Indiana State Teachers' Retirement Fund ("TRF") administers a multiple-employer retirement fund established to provide pension benefits for persons who are engaged in teaching or in the supervision of teaching in the State's public schools. Membership in TRF is required for all legally qualified and regularly employed public school teachers. TRF provides retirement benefits, as well as death and disability benefits. Indiana Code 21-6.1 governs TRF, and TRF is administered by a five member Board of Trustees appointed by the Governor ("TRF Board"). On June 30, 2003, TRF had 115,159 total members with assets totaling \$6,155,527,008.

The TRF benefit consists of (1) a pension formula benefit based upon years of service and final average salary, and (2) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, each employer was authorized to elect to "pick up" the employee contribution.

For employees hired prior to July 1, 1995, moneys to pay retirement benefits are provided from State appropriations on a "pay as you go" basis. As a result, there is a substantial unfunded accrued liability in the TRF (the "Closed Plan").

To address TRF's unfunded liability, the State and the TRF Board took the following actions:

1. The State capped its pension benefit obligation by (a) shifting the obligation for all teachers hired after July 1, 1995 to local school districts and (b) implementing a level percent of payroll current funding approach (the “New Plan”). The TRF Board sets the contribution rate for the New Plan based on an actuarial valuation of the Plan.

2. The New Plan is intended to be responsible for the total cost of teachers transferring to other school corporations after 1995. The TRF Board began addressing the unfunded liability developing in the New Plan as a result of the impact of teacher transfers, by increasing the required payroll contribution rate to 9.0%, the rate recommended by TRF’s actuary.

3. In 1996, the State changed the State constitution to allow investment in equities, thereby increasing earnings potential for plan assets.

In addition, the State established the Pension Stabilization Fund to reduce future General Fund appropriations for TRF liabilities beginning in Fiscal Year 2006. Payments from the Pension Stabilization Fund were intended to equal the difference between (1) the then current year liability and (2) 106% of the prior year’s payment from the General Fund for the liability. As of June 30, 2004, the Pension Stabilization Fund balance was \$1.953 billion. The Pension Stabilization Fund was funded from General Fund, Hoosier Lottery and gaming revenue, as well as investment income.

To fund teacher pension obligations for Fiscal Years 2004 and 2005, the General Assembly authorized transfer of a total of \$380.0 million from the Pension Stabilization Fund to the General Fund. In addition, the General Assembly redirected Hoosier Lottery profits that otherwise would have been deposited in the Pension Stabilization Fund.

As of June 30,	1999	2000	2001	2002	2003
Funded Status of Closed Plan					
Actuarial Value of Assets	\$ 4,730,666,420	\$ 5,209,889,286	\$ 5,363,497,813	\$ 5,555,352,257	\$ 5,728,553,155
Actuarial Accrued Liability	12,172,501,450	12,409,275,218	12,695,787,691	13,497,778,031	13,354,866,440
Unfunded/(Overfunded) AAL	7,441,835,030	7,199,382,932	7,332,289,878	7,942,425,774	7,626,313,285
Funded Ratio	38.9%	42.0%	42.2%	41.2%	42.9%
Funded Status of New Plan*					
Actuarial Value of Assets	\$ 240,053,914	\$ 368,157,499	\$ 447,261,751	\$ 621,222,272	\$ 825,811,772
Actuarial Accrued Liability	498,422,993	705,790,225	838,038,282	1,166,883,205	1,392,472,616
Unfunded AAL	258,369,079	337,632,726	380,776,531	545,660,933	566,660,844
Funded Ratio	48.2%	52.2%	54.0%	53.2%	59.3%
* Total Unfunded Accrued Liability of the New Plan is primarily attributable to the transfer of members (and their accrued liabilities) from the Closed Plan.					

Source: Indiana State Teachers’ Retirement Fund, The Report of the Annual Actuarial Valuation, June 30, 2003.

State Police Pension Trust

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member’s highest salary in 36 consecutive months or a third year trooper’s pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount. The State Police Pension Fund is funded on an actuarial basis. The Treasurer of State is custodian for such trust. Certain financial information about the State Police Pension Trust is also included in the Indiana Comprehensive Annual Financial Report. See “FISCAL POLICIES—Certain Financial Information Incorporated Herein by Reference; Availability from NRMSIRs, State.”

VII. ECONOMIC AND DEMOGRAPHIC INFORMATION

General

Indiana is bordered on the north by Lake Michigan and the State of Michigan, on the south by the Ohio River and the Commonwealth of Kentucky, on the east by the State of Ohio, and on the west by the State of Illinois. The “Crossroads of America,” Indiana is within a day’s drive of nearly two-thirds of the United States’ population. Indiana benefits from proximity to major markets and population centers—both national and international. With 10,023 miles of State highways and 1,172 miles of interstate highways, Indiana has more interstate highways passing through it than any other state.

Indiana also benefits from a relatively low cost of living. The cost of living index for Indiana’s major cities has been consistently below the national average of 100. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Electricity costs are comparatively low in Indiana. According to the U.S. Energy Information Administration, average electric utility rates during 2000 were 14.6% lower than the national average for all industrial consumers while residential energy bills were 17.2% lower than the national average.

During the past decade, Indiana’s economy grew in size and diversity. With an estimated 2001 Gross State Product of approximately \$189.9 billion, Indiana’s economy ranks sixteenth largest in the country in terms of the value of goods and services produced. The State ranks in the top five nationally for producing items as diverse as pharmaceuticals, medical equipment and surgical supplies, engines and parts, magnetic and optical media, household appliances, motor vehicle bodies and trailers, rubber products and steel. From 1993 to 2003, Indiana witnessed a significant shift in the distribution of employment between sectors. Employment in the Professional and Business Services sector increased by 38%, followed by a 25% gain in Education and Health Services and a 23% increase in Construction. The Manufacturing sector is 19.6% of total employment in Indiana, a decrease from 23.4% in 1993; however, manufacturing remains the largest single sector of employment in Indiana.

Population

Indiana is the 14th most populous state in the United States. Indiana’s population grew by 1.0% from 1980 to 1990 and 9.7% from 1990 to 2000. The capital and largest city is Indianapolis. From 1990 to 2000, population within the Indianapolis MSA increased 16.4%, making it the second fastest growing major metropolitan area in the Midwest.

Table VII-1
Population, including Selected Indiana MSAs

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>% Change 1980-2000</u>
Indiana	5,490,210	5,544,159	6,080,485	10.8%
Indianapolis MSA	1,166,575	1,249,822	1,607,486	37.8
Fort Wayne MSA	354,156	363,811	502,141	41.8
Evansville- Henderson MSA	235,403	235,946	251,366	6.8
Gary Primary MSA	642,733	604,526	631,362	-1.8
South Bend MSA	241,617	247,052	265,559	9.9
United States	226,542,199	248,709,873	281,421,906	24.2

Source: U.S. Census Bureau

**Table VII-2
Demographic Profile**

Age (Years)	<u>Indiana</u>		<u>United States</u>	
	<u>1990</u>	<u>2000</u>	<u>1990</u>	<u>2000</u>
Under 5	7.2%	7.0%	7.6%	6.8%
5-17	18.7	18.9	18.2	18.9
18-24	11.0	10.2	10.8	9.7
25-44	31.5	29.4	32.4	30.2
45-64	19.1	22.0	18.6	22.0
65 and older	12.6	12.4	12.5	12.4
Median Age	35.4 years	35.2 years	32.8 years	35.3 years

Source: U.S. Census Bureau

Employment

During this past decade, employment in Indiana shifted significantly between sectors, reflecting the fundamental changes taking place in the state's economy and following larger trends at the national level. Although manufacturing is still the largest sector of employment at 19.6% of total employment, it was the slowest growing sector from 1993 to 2003. The fastest growing sectors were Professional and Business Services, which grew by 37.5% from 1993 to 2003, followed by Education and Health Services (24.6% growth) and Construction (22.7% growth). Since 1988, Indiana's annual unemployment rate has remained below that of the United States.

**Table VII-3
Year-Ending Non-Farm Employment
(Seasonally Adjusted)**

<u>Year</u>	<u>Total Employment</u>		<u>% Change</u>		<u>Net New Jobs</u>
	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>
1993	2,669,700	112,203,000	3.5	2.5	89,300
1994	2,757,200	116,056,000	3.3	3.4	87,500
1995	2,807,100	118,210,000	1.8	1.9	49,900
1996	2,836,700	121,003,000	1.1	2.4	29,600
1997	2,881,100	124,361,000	1.6	2.8	44,400
1998	2,952,900	127,364,000	2.5	2.4	71,800
1999	3,005,300	130,536,000	1.8	2.5	52,400
2000	2,975,000	132,441,000	-1.0	1.5	-30,300
2001	2,899,400	130,659,000	-2.5	-1.3	-75,600
2002	2,903,900	130,096,000	-0.2	-0.4	- 4,500
2003	2,898,100	130,035,000	-0.2	-0.5	- 5,800
Average Annual Growth Rate (1993-2003):			0.8	1.5	
Total Growth (1993-2003):			8.6	15.9	228,400

Source: U. S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Table VII-4
Year-Ending Non-Farm Employment by Sector
(Seasonally Adjusted in Thousands)

<u>Sector</u>	<u>1993</u>	<u>% of Total</u>	<u>2003</u>	<u>% of Total</u>	<u>Growth 1993-2003</u>
Mining	7.2	0.3%	7.2	0.2%	0.0%
Construction	120.4	4.5	147.7	5.1	22.7
Manufacturing	623.7	23.4	569.3	19.6	-8.7
Trade, Transportation & Utilities	543.9	20.4	568.1	19.6	4.4
Information	42.2	1.6	41.0	1.4	-2.8
Financial Activities	134.8	5.0	140.8	4.9	4.5
Professional & Business Services	187.0	7.0	257.2	8.9	37.5
Education & Health Services	290.3	10.9	361.7	12.5	24.6
Leisure & Hospitality	224.3	8.4	274.7	9.5	22.5
Other Services	102.8	3.9	105.4	3.6	2.5
Government	<u>393.1</u>	<u>14.7</u>	<u>425.0</u>	<u>14.7</u>	<u>8.1</u>
Total	<u>2,669.7</u>	<u>100.0</u>	<u>2898.1</u>	<u>100.0</u>	<u>8.6</u>

Source: U. S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Table VII-5
Unemployment Rate
(Annual Averages of Monthly Data)

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana as % of U.S.</u>
1993	5.4	6.9	78.3
1994	4.9	6.1	80.3
1995	4.7	5.6	83.9
1996	4.1	5.4	75.9
1997	3.5	4.9	71.4
1998	3.1	4.5	68.9
1999	3.0	4.2	71.4
2000	3.2	4.0	80.0
2001	4.4	4.7	93.6
2002	5.1	5.8	87.9
2003	5.1	6.0	85.0

Source: U. S. Bureau of Labor Statistics: *Local Area Unemployment Survey*

Income

In 2003, Indiana's per capita personal income reached \$28,783, increasing 2.7% from 2002. During the past ten years, Indiana's personal income grew at an average annual rate of 3.83%. From 1992 to 2002, Indiana's median household income grew faster than that of the United States, averaging an annual growth rate of 1.66% for Indiana as compared to 1.15% for the United States. In 2002, median income was \$41,034 or 96% of the U.S. average, up from 92% in 1992.

Table VII-6
Growth in Per Capita Personal Income

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>
1993	19,764	21,346	3.6%	2.4%
1994	20,761	22,172	5.0	3.9
1995	21,408	23,076	3.1	4.1
1996	22,368	24,175	4.5	4.8
1997	23,306	25,334	4.2	4.8
1998	24,894	26,883	6.8	6.1
1999	25,615	27,939	2.9	3.9
2000	27,134	29,847	5.9	6.8
2001	27,619	30,527	1.8	2.3
2002	28,032	30,906	1.5	1.2
2003	28,783	31,632	2.7	2.3
Average Annual Growth Rate (1993-2003):			3.83%	4.01%

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table VII-7
Growth in Median Household Income
(Two-Year Average)

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>
1992	34,805	38,032	-0.1 %	-1.9 %
1993	35,417	37,784	1.8	-0.7
1994	34,236	37,904	-3.3	0.3
1995	35,711	38,712	4.3	2.1
1995	38,995	37,857	9.2	2.3
1997	41,126	40,284	5.5	1.8
1998	42,931	41,436	4.4	2.9
1999	43,283	42,764	0.8	3.2
2000	41,937	43,211	-3.1	1.0
2001	41,847	43,374	-0.2	0.4
2002	41,034	42,654	-1.9	-1.7
Average Annual Growth Rate (1992-2002):			1.66%	1.15%

Source: U.S. Census Bureau: *Current Population Survey*

Table VII-8
Poverty Rates

<u>Year</u>	<u>Indiana</u>	<u>U.S.</u>
1992	11.8%	14.8%
1993	12.2	15.1
1994	13.7	14.5
1995	9.6	13.8
1996	7.5	13.7
1997	8.8	13.3
1998	9.4	12.7
1999	6.7	11.9
2000	8.5	11.3
2001	8.5	11.7
2002	9.1	12.2

Source: U.S. Census Bureau: *Current Population Survey*

Gross State Product

With an estimated 2001 Gross State Product of approximately \$189.9 billion, Indiana's economy ranks fifteenth largest in the country in terms of the value of goods and services produced. Since 1991, Indiana's Gross State Product has grown at average annual rate of 5.2%.

Table VII-9
Gross State Product (GSP) and Gross Domestic Produce (GDP)
(Millions of Dollars, Current Dollars)

	<u>1981</u>	<u>1991</u>	<u>2001</u>	Average Annual Growth Rate <u>1991-2001</u>	<u>% of Total</u>
Indiana	63,848	114,188	189,919	5.2%	100.0%
Agriculture	2,098	1,670	2,458	3.9	1.3
Mining	531	577	668	1.5	0.4
Construction	2,590	5,273	9,971	6.6	5.3
Manufacturing	21,617	33,230	51,647	4.5	27.2
Transportation & Utilities	5,792	10,376	14,376	3.3	7.6
Wholesale Trade	3,843	6,905	11,636	5.4	6.1
Retail Trade	6,050	10,527	17,544	5.2	9.2
F.I.R.E.	7,903	14,966	27,224	6.2	14.3
Services	7,005	17,613	34,306	6.9	18.1
Government	6,421	13,050	20,089	4.4	10.6
United States	3,069,751	5,895,430	10,137,190	5.6	100.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Exports

In 2002, Indiana businesses exported \$14,923.0 million worth of goods to other countries, an increase of 3.9% from 2001. Since 1996, Indiana's exports have grown at an average annual rate of 5.2% as compared to 1.8% for the United States as a whole.

Table VII-10
Exports
(Millions of Dollars)

Year	<u>Exports in Millions of Dollars</u>		<u>Annual Percentage Change</u>		
	Indiana	U.S.	Indiana	U.S.	Indiana as a % of U.S. Exports
1996	10,983.6	622,827.1	- %	- %	1.8 %
1997	12,028.5	687,598.0	9.5	10.4	1.7
1998	12,318.1	680,474.2	2.4	(1.0)	1.8
1999	12,910.3	692,820.6	4.8	1.8	1.9
2000	15,385.8	780,418.6	19.2	12.6	2.2
2001	14,365.4	731,025.1	(6.6)	(6.3)	2.1
2002	14,923.0	693,257.3	3.9	(5.2)	2.2
2003	16,407.3	723,743.2	9.9	4.4	2.3
Average Annual Growth Rate (1996-2003):			5.9	2.2	
Total Growth (1996-2003):			49.3	16.2	

Source: U.S. Census Bureau, Foreign Trade Division

Table VII-11
Indiana's Leading Export Industries and Destinations
(Millions of Dollars)

<u>Export Industries</u>		<u>Export Destinations</u>	
<u>Industry</u>	<u>2003 Exports</u>	<u>Country</u>	<u>2003 Exports</u>
Vehicles, excluding Railway	\$4,446.3	Canada	\$7,458.5
Machinery	3,531.8	Mexico	2,105.2
Electrical Machinery	1,312.8	United Kingdom	1,208.7
Organic Chemical	1,194.3	France	921.7
Optic/Medical Instruments	997.8	Japan	630.2
Pharmaceutical	735.9	Germany	552.5
Miscellaneous Chemical	643.4	Netherlands	288.8
Plastic	622.0	Brazil	276.9
Iron and Steel	298.1	Australia	238.9
Aluminum	212.8	China	235.6
Other	2,407.1	Other	2,485.3

Source: U.S. Census Bureau, Foreign Trade Division

VIII. LITIGATION

(November 19, 2004)

The following litigation liability survey is a summary of significant litigation and claims currently pending against the State of Indiana (the "State") involving amounts exceeding \$5.0 million individually or in the aggregate. With respect to tort claims only, the State's liability is limited to (i) \$300,000 for injury or death of one person in any one occurrence, and (ii) \$5.0 million for injury or death of all persons in any one occurrence.

Contract Related

In July 2002, in *Raybestos vs. Indiana Department of Environmental Management*, plaintiff filed a breach of contract action against the State alleging that the Indiana Department of Environmental Management failed to abide by the terms of an agreed order relating to cleanup costs. Plaintiff is seeking \$18.0 million in damages. On a motion for a summary judgment, plaintiff prevailed on the breach of contract issue. The case is stayed pending appeal by the State on that Issue.

In August 2002, in *Arthur Andersen vs. Department of Local Government Finance* ("DLGF"), plaintiff was hired to conduct reassessment of real property in Lake County, and later filed a breach of contract action. The firm seeks \$12.0 million in damages. Plaintiff asserts that the DLGF approved the firm's invoices, but then failed to abide by contractual provisions requiring the DLGF to take steps to force Lake County to pay invoices. Plaintiff's motion for summary judgment was denied on April 29, 2004. No trial date has been set.

Employment Related

In July 1993, in *Paula Brattain et al. vs. Richmond State Hospital et al.*, plaintiffs filed a lawsuit in a state trial court alleging that the State failed to pay certain similarly classed State employees at an equal rate of pay from 1973 to 1993. The court certified plaintiffs' class, and class notification is complete. No trial date has been set. Plaintiffs seek damages in an unspecified amount, as well as costs and attorney fees. If plaintiffs are ultimately successful, the loss will be in excess of \$5.0 million.

In *Blythe A. Whinery et al. vs. Sue Roberson*, the Director of State Personnel, a group of state employees filed a class action for damages and injunctive relief in claiming violation of plaintiffs' due process and statutory and contractual rights. Plaintiffs seek damages, back wages and attorney fees and costs in excess of \$5.0 million. A state court found in favor of the State, but plaintiffs appealed. Oral arguments were heard on November 4, 2004, and the parties are awaiting a decision from a state court of appeals.

Medicaid Related

In *Gorka vs. Sullivan*, a case filed in 1993, certain transportation providers sued the State, challenging the Medicaid reimbursement rules for transportation services. Initially, the State prevailed in both the state and federal trial courts, and plaintiffs appealed. The federal appeal resulted in a remand to the state court. Following a bench trial, the court entered a judgment for the plaintiffs. The State intends to appeal the judgments. If the rules are ultimately enjoined, the State will forfeit savings in excess of \$5.0 million.

In *Pediatric Dentistry North vs. Indiana Family and Social Services Administration*, a case filed in 1998, the Medicaid reimbursement system for pediatric dental services under both federal and state laws was challenged. A state trial court entered a summary judgment in favor of the State on the federal law claims. Plaintiffs claim damages against the State in the amount of approximately \$17.0 million. Mediation on the state law claims was not successful. A date for the bench trial on the state law claims has not been set.

Property Related

In 2000, in *NJK Farms and George W. Pendygraft vs. Indiana Department of Environmental Management*, property owners filed an action against the State, including the Office of Environmental Adjudications (“OEA”), claiming that denial of a permit for certain land use was an unconstitutional taking of property and a denial of due process under the United States constitution, as well as a violation of the Indiana constitution. Plaintiffs are seeking in excess of \$30.0 million in damages plus costs and attorney fees. Federal claims against the OEA were dismissed by the federal court. A hearing on plaintiff’s petition for judicial review is scheduled in state court in January 2005. Remaining federal claims are expected to be taken up after the state court acts.

In May 2000, several cases were filed against the State by property owners along the Fawn River in Northeastern Indiana, alleging violations of the Clean Water Act, unconstitutional takings of property and federal civil rights violations. Plaintiffs are seeking in excess of \$38.0 million in damages, costs and attorney fees. In *Greenfield Mills vs. Indiana Department of Natural Resources*, the federal trial court granted summary judgment in favor of the State, but property owners appealed. A federal appeals court remanded the case to the trial court on one issue under the federal Clean Water Act. The parties have completed discovery on that issue and are preparing briefs in support of new motions for summary judgment for consideration of the trial court. The State court cases are stayed pending outcome of federal court case.

In March 2004, in *Corbin Smyth vs. Steve Carter* [the State Attorney General] and *Tim Berry* [the Treasurer of State], an owner of unclaimed property filed a class action in state court alleging that Indiana’s unclaimed property statute is unconstitutional under the federal and Indiana constitutions and that interest, dividends and the like should be paid to owners of unclaimed property. Fiscal impact is potentially more than \$5.0 million. The State filed a motion to dismiss in June 2004; an oral argument on the motion is scheduled for January 2005.

Tax Related

In January 2003, a substantial business with facilities in East Chicago filed an amended complaint in a state trial court that claims the City of East Chicago improperly reduced the assessed value it reported from approximately \$1.2 billion to \$750 million during the process of determining budgets, tax rates and tax levies for 2002. Plaintiff also claims that various local and state officials did not follow proper procedures, which resulted in a tax rate that was higher than it should have been and an increased tax burden on plaintiff. In addition, plaintiff claims that a particular state statute at issue permits an unconstitutional non-uniform and unequal rate of assessment in violation of the Indiana Constitution. Claims are asserted against Lake County and the State in unspecified amounts, but could be several million dollars. The State filed a motion to dismiss plaintiff’s complaint on March 20, 2003. The same allegations by the same business were filed as a new case in state tax court on April 4, 2003. Oral arguments were held on March 5, 2004. No decision has been made.

In October 2003, a group of financial services companies filed a case claiming exemption from the State’s financial institution tax, citing federal law. State fiscal impact is approximately \$5.0 million to \$6.0 million.

Another case, making similar claims, was filed by other financial services companies in November 2003. Fiscal impact in that case is also approximately \$5.0 million to \$6.0 million.

On April 29, 2004, a group of residential taxpayers in Lake County filed a complaint for declaratory judgment that reassessment statutes that provide for a fair market value assessment by an independent company for residences in Lake County and by the DLGF for industrial facilities in Lake County (the "Reassessment Statutes") were unconstitutional "special" legislation in violation of the Indiana Constitution. Plaintiffs also requested a preliminary injunction to stop the Lake County Treasurer from mailing tax bills calculated under the Reassessment Statutes. On May 7, 2004, a state trial court granted the injunction and declared the Reassessment Statutes unconstitutional. The State Attorney General, who is among the defendants named in the complaint, filed a petition for writ of mandamus and prohibition in the Indiana Supreme Court challenging the trial court's jurisdiction to hear a tax dispute, arguing that such cases are within the exclusive jurisdiction of the state tax court. In case the Supreme Court denies the Attorney General's jurisdictional argument, the Attorney General also filed a notice of appeal in the trial court. On May 27, 2004, the Indiana Supreme Court stayed the trial court's actions, thereby permitting the treasurer to mail property tax bills calculated under the Reassessment Statutes, ordered lawyers for the parties to file briefs on an expedited basis, and scheduled oral arguments for June 23, 2004. The Supreme Court did not decide the merits of the residential taxpayers' case. Although the immediate impact of the trial court's action may result in a short-term revenue shortfall to Lake County taxing units, there is not expected to be a long-term fiscal impact on the State because under current law, property tax revenue needed to fund the Lake County tax levies must be paid by Lake County taxpayers. In September 2004, Hamilton County filed suit against the Department of Revenue claiming the State miscalculated the amount of county option income taxes the Department of Revenue collects and the State remits to the county. The county asserts that the county was due more tax revenue since 1999 than was remitted by the State. If the county prevails, the State could owe as much as \$15.0 million to the county.

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APPENDIX B

SERIES 2005 A QUALIFIED OBLIGATIONS

APPENDIX B

SERIES 2005 A QUALIFIED OBLIGATIONS

Qualified Entity	Par Amount	Source of Payment	Final Maturity	Percentage of Total Debt
Town of Danville, Indiana Sewage Works	\$ 8,000,000	Revenue	11/1/2026	58.48%
Town of Centerville Stormwater Utility	1,180,000	Revenue	1/1/2025	8.63
City of Aurora Municipal Sewer Utility	1,039,000	Revenue	12/1/2020	7.60
City of Beech Grove Sewage Works	919,102	Revenue	1/1/2025	6.72
Eastern Bartholomew Regional Sewer District	900,000	Revenue	2/15/2025	6.58
City of Logansport Municipal Water Works	705,000	Revenue	1/1/2010	5.15
Town of Medaryville Municipal Sewage Works	495,000	Revenue	1/1/2016	3.62
Town of Reynolds Municipal Water Utility	238,000	Revenue	7/1/2015	1.74
New London Conservancy District	203,000	Revenue	1/1/2025	1.48
Total	<u>\$ 13,679,102</u>			<u>100.00%</u>

MAJOR SERIES 2005 A QUALIFIED OBLIGATION

TOWN OF DANVILLE, INDIANA SEWAGE WORKS

A. Certain General Economic and Demographic Information

The Town of Danville is located in Hendricks County, Indiana approximately 20 miles west of Indianapolis. Major highways include U.S. 36, and State Roads 39 and 236. The Town's population in the 2000 census was 6,418. The Danville/Hendricks County economy has strong industrial and service sectors, with sizable retail trade and wholesale sectors in the local economy as well.

The Town's Sewage Works has approximately 2,600 customers.

B. Description of Project

Proceeds of the Qualified Obligations will be used for the expansion of plant capacity.

C. Description of Qualified Obligations

- | | |
|----------------------|---|
| Total Principal | - \$8,000,000 to mature serially over a period of 22 years. |
| Security and Lien | - Net Revenues of the Utility on a parity with the outstanding \$1,000,000 Sewage Works Bonds, Series 1996. ("Net Revenues" are defined as gross revenues less reasonable expenses of operation, repair and maintenance.) |
| Repayment Schedule | - Annual principal payments commencing November 1, 2005 and terminating November 1, 2026. |
| Interest Payments | - Semi-annual interest payments commencing May 1, 2005 and each November 1 and May 1 thereafter. |
| Debt Service Reserve | - To be funded from cash on hand. |

D. Financial Data Relating to the Qualified Entity

- | | |
|--|---|
| Utility Rates | - Billing for unmetered residential users was set at a rate of \$26.66 per month effective January 1, 2004. Effective January 1, 2005, the user rate will increase to \$34.66. Rates are solely determined by the Town Council of the Town of Danville. |
| Debt Presently Outstanding of Sewage Works | - \$1,000,000 Sewage Works Bonds, Series 1996 (on parity with the Qualified Obligations.) |
| Pro Forma Coverage | - 1.31 times – pro forma Net Revenues divided by estimated combined maximum annual debt service. The Indiana Bond Bank requires pro forma coverage at the time of issuance of the Qualified Obligations to be equal to or greater than 1.25 times. |

APPENDIX C
FORM OF BOND COUNSEL OPINION

APPENDIX C

FORM OF BOND COUNSEL OPINION

Upon delivery of the Bonds, Barnes & Thornburg LLP, bond counsel,
will deliver an opinion substantially in the following form:

January 25, 2005

Indiana Bond Bank
Indianapolis, Indiana

Re: Indiana Bond Bank
Special Program Bonds, Series 2005 A

Ladies and Gentlemen:

We have acted as bond counsel to the Indiana Bond Bank (the "Issuer") in connection with the issuance by the Issuer of its Special Program Bonds, Series 2005 A, dated January 25, 2005 (the "Bonds"), in the aggregate principal amount of \$14,790,000, pursuant to Indiana Code 5-1.5, as amended, and the Trust Indenture, dated as of January 1, 2005 (the "Indenture"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied on representations of the Issuer contained in the Indenture, the certified proceedings and other certifications of public officials furnished to us, and certifications, representations and other information furnished to us by or on behalf of the Issuer, the Series 2005 A Qualified Entities (as defined in the Indenture) and others, including, without limitation, certifications contained in the tax and arbitrage certificate of the Issuer, dated the date hereof, and the tax and arbitrage certificate of the Series 2005 A Qualified Entities, dated the date hereof, without undertaking to verify the same by independent investigation. We have relied upon the legal opinion of Bingham McHale LLP, Indianapolis, Indiana, special counsel to the Issuer, dated the date hereof, as to the matters stated therein. We have relied upon the reports of Crowe Chizek and Company LLC, Indianapolis, Indiana, independent certified public accountants, dated the date hereof, as to the matters stated therein.

For purposes of this opinion, we have assumed, without making any factual, legal or other inquiry or investigation, and without expressing any opinion or stating any conclusion with respect thereto, that the interest on the Special Program Bonds, Series 1995 A, dated as of October 1, 1995, issued by the Issuer, and the entire outstanding principal amount of which is to be defeased with, among other funds, a portion of the proceeds of the Bonds, is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on this date (the "Code").

Based on the foregoing, we are of the opinion that, under existing law:

1. The Issuer is a body corporate and politic validly existing under the laws of the State of Indiana (the "State"), with the corporate power to enter into the Indenture and perform its obligations thereunder and to issue the Bonds.
2. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding limited obligations of the Issuer, enforceable in accordance with their terms. The Bonds are payable solely from the Trust Estate (as defined in the Indenture).

3. The Indenture has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms.

4. Under Section 103 of the Code, interest on the Bonds is excludable from gross income for federal income tax purposes. The opinion set forth in this paragraph is subject to the condition that each of the Issuer and the Series 2005 A Qualified Entities comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. Each of the Issuer and the Series 2005 A Qualified Entities has covenanted or represented that it will comply with such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

5. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

6. Interest on the Bonds is exempt from income taxation in the State for all purposes, except the State financial institutions tax.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement, dated January 7, 2005, or any other offering material relating to the Bonds.

We express no opinion regarding any tax consequences arising with respect to the Bonds, other than as expressly set forth herein.

With respect to the enforceability of any document or instrument, this opinion is subject to the qualifications that: (i) the enforceability of such document or instrument may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance and similar laws relating to or affecting the enforcement of creditors' rights; (ii) the enforceability of equitable rights and remedies provided for in such document or instrument is subject to judicial discretion, and the enforceability of such document or instrument may be limited by general principles of equity; (iii) the enforceability of such document or instrument may be limited by public policy; and (iv) certain remedial, waiver and other provisions of such document or instrument may be unenforceable, provided, however, that, in our opinion, the unenforceability of those provisions would not, subject to the other qualifications set forth herein, affect the validity of such document or instrument or prevent the practical realization of the benefits thereof.

This opinion is given only as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain additional provisions of the Indenture not otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to the Indenture.

Accounts and Reports

The Bond Bank will keep proper and separate books of records and accounts in which complete and correct entries will be made of its transactions relating to the Funds and Accounts established by the Indenture. Such books, and all other books and papers of the Bond Bank, and all Funds and Accounts will at all reasonable times be subject to the inspection of the Trustee and the owners of an aggregate of at least 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

Before the twentieth day of each month, the Trustee will provide the Bond Bank with a statement of the amounts on deposit in each Fund and Account as of the first day of that month and the total deposits to and withdrawals from each Fund and Account during the preceding month. The Bond Bank may provide for less frequent statements so long as such statements are supplied no less frequently than quarterly.

Preservation of Tax Exemption for the Series 2005 A Bonds

In order to assure the continuing excludability of interest on the Series 2005 A Bonds from the gross income of the owners thereof for purposes of federal income taxation, the Bond Bank covenants and agrees that it will not take any action or fail to take any action with respect to the Series 2005 A Bonds, that would result in the loss of the exclusion from gross income for federal tax purposes of interest on any of the Series 2005 A Bonds pursuant to Section 103 of the Code, nor will the Bond Bank act in any other manner which would adversely affect such exclusion and it will not make any investment or do any other act or thing during the period that the Series 2005 A Bonds are Outstanding which would cause any of the Series 2005 A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code, all as in effect on the date of delivery of the Series 2005 A Bonds. Pursuant to the Indenture, all of these covenants are based solely on current law as in existence and effect on the date of delivery of the Series 2005 A Bonds. It will not be an Event of Default under the Indenture if the interest on the Series 2005 A Bonds is not excluded from gross income for federal tax purposes or otherwise pursuant to any provision of the Code which is not currently in effect and in existence on the date of the issuance of the Series 2005 A Bonds.

In making any determination regarding the covenants, the Bond Bank may rely on an Opinion of Bond Counsel.

Covenants Concerning the Program

In order to provide for the payment of the principal of, premium if any, and interest on the Bonds and of Program Expenses, the Bond Bank will from time to time, with all practical dispatch and in a sound and economical manner in accordance with the Act, the Indenture and sound banking practices and principals (i) do all acts and things as are necessary to receive and collect Revenues (including the enforcement of the prompt collection of any arrears on all Qualified Obligation Payments), and (ii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Bond Bank to protect the rights of the Bond Bank with respect to the Qualified Obligations and to enforce all terms, covenants and conditions of the Qualified Obligations. Whenever necessary in order to provide for the payment of principal of and interest on the Bonds, the Bond Bank will also commence appropriate remedies with respect to any Qualified Obligation which is in default.

Covenants with Respect to Qualified Obligations

With respect to the Qualified Obligations, the Bond Bank covenants as follows:

(a) Not to permit or agree to any material change in any Qualified Obligation (other than ones for which consent of the Bond Bank is not required) unless the Bond Bank supplies the Trustee with a Cash Flow Certificate to the effect that, after such change, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any in each such Fiscal Year.

(b) To the extent that such action would not adversely affect the validity of the Qualified Obligation or other obligations of the Qualified Entity, the Bond Bank will pursue the remedies set forth in the Act, particularly Indiana Code 5-1.5-8-5, for the collection of deficiencies in Qualified Obligation Payments on any Qualified Obligation by collection of such deficiencies out of certain State funds payable but not yet paid to a defaulting Qualified Entity.

(c) To enforce or authorize the enforcement of all remedies available to the Bond Bank as the owner or holder of the Qualified Obligations, unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that, if such remedies are not enforced, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds in each such Fiscal Year; provided, however, that decisions as to the enforcement of remedies shall be within the sole discretion of the Trustee.

(d) Not to sell or dispose of the Qualified Obligations, unless the Bond Bank first provides the Trustee with a Cash Flow Certificate to the effect that, after such sale, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, minus any proceeds of such sale or disposition transferred from any Fund or Account, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any, in each such Fiscal Year.

Certification Covenants

In the event that a deficiency in the Debt Service Reserve Fund is projected in the annual budget of the Bond Bank, the Chairman of the Board of Directors of the Bond Bank will certify such projected deficiency to the State General Assembly on or before August 1 of the Fiscal Year in which such deficiency is projected to occur. Further, regardless of whether any such deficiency was projected for its annual budget and regardless of the time at which such deficiency occurs or is projected to occur, the Bond Bank will take all actions required or allowed under the Act to certify any deficiency or projected deficiency in the Debt Service Reserve Fund to the State General Assembly.

Budgets

The Bond Bank will adopt and file with the Trustee, upon the written request of the Trustee, and appropriate State officials under the Act an annual budget covering its fiscal operations for the succeeding Fiscal Year not later than June 1 of each year. The annual budget will be open to inspection by any Owner of Bonds. In the event the Bond Bank does not adopt an annual budget for the succeeding Fiscal Year on or before June 1, the budget for the preceding Fiscal Year will be deemed to have been adopted and be in effect for the succeeding Fiscal Year until the annual budget for such Fiscal Year has been duly adopted. The Bond Bank may at any time adopt an amended annual budget in the manner then provided in the Act.

Defeasance and Discharge of Lien of Indenture

If payment or provision for payment is made to the Trustee of the principal of and interest due and to become due on all of the Bonds then Outstanding under the Indenture, and if the Trustee receives all payments due and to become due under the Indenture, then the Indenture may be discharged in accordance with its provisions. In the event of any early redemption of Bonds in accordance with their terms, the Trustee must receive irrevocable instructions from the Bond Bank, satisfactory to the Trustee, to call such Bonds for redemption at a specified date

and pursuant to the Indenture. Outstanding Bonds will continue to be a limited obligation of the Bond Bank payable only out of the moneys or securities held by the Trustee for the payment of the principal of and interest on the Bonds.

Any Bond will be deemed to be paid when (a) payment of the principal of that Bond, plus interest to its due date, either (i) has been made or has been caused to be made in accordance with its terms, or (ii) has been provided for by irrevocably depositing with the Trustee, in trust and exclusively for such payment, (1) moneys sufficient to make such payment, (2) Governmental Obligations maturing as to principal and interest in such amounts and at such times, without consideration of any reinvestment thereof, as will insure the availability of sufficient moneys to make such payments, or (3) a combination of such moneys and Governmental Obligations, and (b) all other sums payable under the Indenture, including the necessary and proper fees and expenses of the Trustee pertaining to the Bonds, have been paid or deposited with the Trustee.

Events of Default and Remedies

Any of the following events constitutes an “Event of Default” under the Indenture:

- (a) The Bond Bank defaults in the due and punctual payment of the principal of or interest on any Bond;
- (b) The Bond Bank defaults in carrying out any of its other covenants, agreements or conditions contained in the Indenture or in the Bonds, and fails to remedy such Event of Default within 60 days after receipt of notice, all in accordance with the Indenture;
- (c) Any warranty, representation or other statement by or on behalf of the Bond Bank contained in the Indenture, or in any instrument furnished in compliance with or in reference to the Indenture, is materially false or misleading when made, and there has been a failure to remedy such Event of Default within 60 days after receipt of notice, all in accordance with the Indenture;
- (d) The Bond Bank fails to make remittances required by the Indenture to the Trustee within the time limits prescribed in the Indenture;
- (e) A petition is filed against the Bond Bank under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect and is not dismissed within 60 days after such filing;
- (f) The Bond Bank files a voluntary petition in bankruptcy or seeking relief under any provisions of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;
- (g) The Bond Bank is generally not paying its debts as such debts become due, or becomes insolvent, bankrupt, or makes an assignment for the benefit of creditors, or a liquidator or trustee of the Bond Bank or any of its property is appointed by court order or takes possession and such order remains in effect or such possession continues for more than 60 days;
- (h) The Bond Bank fails to restore the Debt Service Reserve Fund to the applicable Debt Service Reserve Requirement within 60 days after the end of the Fiscal Year during which a deficiency occurs; or
- (i) The Bond Bank is rendered incapable of fulfilling its obligations under the Indenture for any reason.

Upon the occurrence of an Event of Default, the Trustee will notify the Owners of Outstanding Bonds of such Event of Default and will have the following rights and remedies:

(a) The Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of and interest on Bonds outstanding under the Indenture, including any and all such actions arising under, or by reason of, the Qualified Obligations;

(b) The Trustee may by action at law or in equity require the Bond Bank to account as if it were the trustee of an express trust for the Owners of the Bonds, and may take such action with respect to the Qualified Obligations as the Trustee deems necessary, appropriate and in the best interest of the Bondholders, subject to the terms of the Qualified Obligations.

(c) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the Bondholders under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate under the Indenture and of the Revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment will confer; and

(d) By notice to the Bond Bank and the Attorney General of the State, the Trustee may declare the principal of and accrued interest on all Bonds to be due and payable immediately in accordance with the provisions of the Indenture and the Act. Notwithstanding the foregoing, for so long as the Policy remains in full force and effect, there will not be any acceleration of principal of, or interest on, the Series 2005 A Bonds unless the Trustee receives the express written consent of the Series 2005 A Bond Insurer prior to taking such action.

If an Event of Default has occurred, if requested to do so by the Owners of 25% or more in aggregate principal amount of the Bonds Outstanding under the Indenture, and if indemnified as provided in the Indenture, the Trustee will be obligated to exercise one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by counsel, deems most expedient in the interest of the Bondholders; provided, however, that if the Series 2005 A Bond Insurance Policy is in full force and effect, the Trustee must receive the express written consent of the Series 2005 A Bond Insurer before exercising any such right or remedy in connection with the Series 2005 A Bonds.

The Owners of a majority in aggregate principal amount of the Bonds Outstanding under the Indenture will have the right, at any time during the continuance of an Event of Default, by a written instrument or instruments executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture. However, such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture; provided, however, that for so long as the Series 2005 A Bond Insurance Policy remains in full force and effect, the Trustee must receive the express written consent of the Series 2005 A Bond Insurer before conducting any such proceedings in connection with the Series 2005 A Bonds.

Waivers of Events of Default

The Trustee, with the consent of the Series 2005 A Bond Insurer (so long as the Series 2005 A Bond Insurance Policy remains in full force and effect), may, at its discretion, waive any Event of Default and its consequences, and must do so upon the written request of the owners of (a) more than sixty-six and two-thirds percent (66 2/3%) in aggregate principal amount of all Bonds then Outstanding in respect of which an Event of Default in the payment of principal or interest exists, or (b) more than fifty percent (50%) in aggregate principal amount of all Bonds then Outstanding in the case of any other default. However, there may not be waived (i) any Event of Default in the payment of the principal of any Bond then Outstanding under the Indenture at the specified date of maturity or (ii) any Event of Default in the payment when due of the interest on any Bond then Outstanding under the Indenture, unless prior to the waiver, all arrears of interest or principal due, as the case may be, with interest on overdue principal at the rate borne by such Bond, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for. In case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default is discontinued or abandoned or determined adversely, then the Bond Bank, the Trustee and the Bondholders will be restored to their former respective positions and right under the Indenture. No waiver or rescission will extend to any subsequent or other Event of Default or impair any right consequent thereon.

Rights and Remedies of Owners of Bonds

No owner of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or for any other remedy under the Indenture, unless (a) an Event of Default has occurred, (b) such Default shall have become an Event of Default and the owners of not less than 25% in aggregate principal amount of Bonds then Outstanding have made written request to the Trustee and have offered the Trustee reasonable opportunity either to proceed to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name, (c) such owners of Bonds have offered to indemnify the Trustee, as provided in the Indenture, and (d) the Trustee has refused, or for 60 days after receipt of such request and offer of indemnification has failed, to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name. All proceedings at law or in equity must be carried out as provided in the Indenture and for the equal benefit of the owners of all Outstanding Bonds. However, nothing contained in the Indenture will affect or impair the right of any owner of Bonds to enforce the payment of the principal of and interest on any Bond at and after its maturity, or the limited obligation of the Bond Bank to pay the principal of and interest on each of the Bonds to the respective owners of the Bonds at the time and place, from the source and in the manner expressed in the Bonds.

Series 2005 A Bond Insurer as the Sole Bondholder

For so long as the Series 2005 A Bond Insurance Policy remains in full force and effect, the Series 2005 A Bond Insurer will be deemed by the Trustee and the Bond Bank to be the sole holder or owner of the Series 2005 A Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Series 2005 A Bonds are entitled to take under the Indenture upon the occurrence of an Event of Default

Supplemental Indentures

The Bond Bank and the Trustee may with the prior written consent of the Series 2005 A Bond Insurer for so long as the Series 2005 A Bond Insurance Policy remains in full force and effect but, without the consent of or notice to any of the owners of Bonds, enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

- (a) To cure any ambiguity, formal defect or omission in the Indenture;
- (b) To grant to or confer upon the Trustee for the benefit of the owners of Bonds then Outstanding any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee, or to make any change which, in the judgment of the Trustee, does not materially and adversely affect the interests of the Bondholders and does not otherwise require the unanimous consent of all Bondholders under the Indenture;
- (c) To subject to the lien and pledge of the Indenture additional Revenues, properties or collateral;
- (d) To modify, amend or supplement the Indenture or any supplemental indenture in order to permit qualification under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if the Bond Bank and the Trustee so determine, to add to the Indenture or to any supplemental indenture such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 or similar federal statute;
- (e) To give evidence of the appointment of a separate or co-trustee, or the succession of a new Trustee or the succession of a new registrar and/or paying agent;
- (f) In connection with the issuance of Refunding Bonds;

- (g) To provide for the refunding of all or a portion of the Bonds; and
- (h) To amend the Indenture to permit the Bond Bank to comply with any future federal tax law or any covenants contained in any Supplemental Indenture with respect to compliance with future federal tax laws.

With the exception of Supplemental Indentures for the purposes described in the preceding paragraph and subject to the terms of the Indenture, the owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding which are affected (other than Bonds held by the Bond Bank) will have the right from time to time to consent to and approve the execution by the Bond Bank and the Trustee of any supplemental indenture or indentures deemed necessary and desirable by the Bond Bank or the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture, but only with the express written consent of the Series 2005 A Bond Insurer for so long as the Series 2005 A Bond Insurance Policy remains in full force and effect; provided, however, no supplemental indenture may permit or be construed as permitting, without the consent of the owners of all Bonds then Outstanding under the Indenture and the Series 2005 A Bond Insurer for so long as the Series 2005 A Bond Insurance Policy remains in full force and effect, (a) an extension of a Principal Payment Date, an Interest Payment Date or a redemption date for any Bond issued under the Indenture; (b) a reduction in the principal amount of any Bond or change in the rate of interest or redemption premium; (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds; (d) a reduction in the aggregate principal amount of the Bonds the owners of which are required to consent to such supplemental indenture; (e) the creation of any lien securing any Bonds other than a lien ratably securing all of the Bonds, at any time Outstanding; (f) a reduction in the Reserve Requirement; or (g) any amendment or modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee without the written consent of the Trustee.

Additional Provisions Regarding the Series 2005 A Bond Insurer

For so long as the Series 2005 A Bond Insurance Policy remains in full force and effect the following provisions described below shall govern, notwithstanding anything to the contrary set forth in the Indenture:

- (a) The prior written consent of the Series 2005 A Bond Insurer shall be a condition precedent to the deposit of any Debt Service Reserve Fund Credit Facility other than the FSA Credit Facility. Notwithstanding anything to the contrary set forth in the Indenture, amounts on deposit in the Debt Service Reserve Fund shall be applied solely to the payment of debt service on the Series 2005 A Bonds.
- (b) The Series 2005 A Bond Insurer will be deemed by the Trustee and the Bond Bank as the sole holder of the Series 2005 A Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Series 2005 A Bonds are entitled to take pursuant to those provisions of the Indenture pertaining to defaults and remedies and the duties and obligations of the Trustee, if any. The Trustee shall take no action except with the consent, or at the direction, of the Series 2005 A Bond Insurer. The maturity of Bonds shall not be accelerated without the consent of the Series 2005 A Bond Insurer.
- (c) No grace period for a covenant default under the Indenture will exceed thirty (30) days, nor be extended for more than sixty (60) days, without the prior express written consent of the Series 2005 A Bond Insurer. No grace period shall be permitted for payment.
- (d) The Series 2005 A Bond Insurer will be included as a third party beneficiary of the covenants in the Indenture made by the Bond Bank for the benefit of the owners of the Series 2005 A Bonds.
- (e) Upon the occurrence of an extraordinary mandatory redemption in part, the selection of Series 2005 A Bonds to be redeemed shall be subject to the approval of the Series 2005 A Bond Insurer.
- (f) The rights granted to the Series 2005 A Bond Insurer under the Indenture to request, consent to or direct any action are rights granted to the Series 2005 A Bond Insurer in consideration of its

issuance of the Series 2005 A Bond Insurance Policy. Any exercise by the Series 2005 A Bond Insurer of such rights is merely an exercise of the Series 2005 A Bond Insurer's contractual rights and should not be construed or deemed to be taken for the benefit or on behalf of the owners of the Series 2005 A Bonds nor does such action evidence any position of the Series 2005 A Bond Insurer, positive or negative, as to whether the consent of the owners of the Series 2005 A Bonds is required in addition to the consent of the Series 2005 A Bond Insurer.

- (g) To the extent the Series 2005 A Bonds are paid by the Series 2005 A Bond Insurer under the Series 2005 A Bond Insurance Policy, such Series 2005 A Bonds shall not be deemed paid for purposes of the Indenture and shall remain Outstanding and continue to be due and owing until paid by the Bond Bank in accordance with the Indenture.
- (h) The Indenture will not be discharged until all amounts due or to become due to the Series 2005 A Bond Insurer have been paid in full or duly provided for.
- (i) The Series 2005 A Bond Insurer shall, to the extent it makes any payment of principal of or interest on the Series 2005 A Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 2005 A Bond Insurance Policy.
- (j) The Series 2005 A Bond Insurer will be provided with the following information:
 - (1) Annual audited financial statements of the Bond Bank, if any, as soon as practicable after the end of each Fiscal Year;
 - (2) The Bond Bank's annual budget within thirty (30) days after its adoption;
 - (3) Notice of any draw upon the Debt Service Reserve Fund within two (2) business days after knowledge thereof other than (i) withdrawals of amounts in excess of the Reserve Requirement, or (ii) withdrawals in connection with a refunding of the Bonds;
 - (4) Notice of the occurrence of any default known to the Trustee within five (5) business days after knowledge thereof by the Trustee, including any default with respect to a 2005 Qualified Obligation;
 - (5) Prior notice of any advance refunding or redemption of any of the Series 2005 A Bonds, including the principal amount, maturities and CUSIP numbers of such Series 2005 A Bonds;
 - (6) Notice of any resignation or removal of the Trustee, and the appointment of, and acceptance of duties by, any successor thereto;
 - (7) Notice of the commencement of any proceeding by or against the Bond Bank or any 2005 Qualified Entity (if known by the Bond Bank) commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");
 - (8) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Series 2005 A Bonds;
 - (9) A full original transcript of all proceedings related to the execution of any amendment or supplement to the Indenture or the 2005 Qualified Obligations; and
 - (10) All reports, notices and correspondence delivered under the Indenture or the 2005 Qualified Obligations.

- (k) Each of the Bond Bank and the Trustee covenant and agree to take such action (including, as applicable, filing of UCC financing statements and continuations thereof) as is necessary from time to time to perfect or otherwise preserve the priority of the pledge of the Trust Estate under State law.
- (l) The Bond Bank shall pay or reimburse the Series 2005 A Bond Insurer any and all charges, fees, costs and expenses which the Series 2005 A Bond Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Indenture or any 2005 Qualified Obligation; (ii) the pursuit of any remedies under the Indenture or any 2005 Qualified Obligation or otherwise afforded by law or equity; (iii) any amendment, waiver or other action with respect to, or related to, the Indenture or any 2005 Qualified Obligation whether or not executed or completed; (iv) the violation by the Bond Bank or any 2005 Qualified Entity of any law, rule or regulation, or any judgment, order or decree applicable to it or (v) any litigation or other dispute in connection with the Indenture or any 2005 Qualified Obligation or the transactions contemplated thereby, other than amounts resulting from the failure of the Series 2005 A Bond Insurer to honor its obligations under the Series 2005 A Bond Insurance Policy. The Series 2005 A Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture or any 2005 Qualified Obligation.

After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to payment of expenses of the Bond Bank or rebate only after the payment of debt service due and past due on the Series 2005 A Bonds, together with replenishment of the Debt Service Reserve Fund.

The Series 2005 A Bond Insurer shall be entitled to pay principal of or interest on the Series 2005 A Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Bond Bank (as such terms are defined in the Series 2005 A Bond Insurance Policy) and any amounts due on the Series 2005 A Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not the Series 2005 A Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the Series 2005 A Bond Insurance Policy) or a claim upon the Series 2005 A Bond Insurance Policy.

- (m) To accomplish defeasance, the Bond Bank shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Series 2005 A Bond Insurer (“Accountant”) verifying the sufficiency of the escrow established to pay the Series 2005 A Bonds in full on the maturity or redemption date (“Verification”), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Series 2005 A Bond Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the Series 2005 A Bonds are no longer “Outstanding” under the Indenture and (iv) a certificate of discharge of the Trustee with respect to the Series 2005 A Bonds. Each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Bond Bank, the Trustee and the Series 2005 A Bond Insurer. The Series 2005 A Bond Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow.

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APPENDIX E
DEFINITIONS

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DEFINITIONS

The following are definitions of certain terms used in the Official Statement, including its Appendices:

“Accounts” means the accounts created pursuant to the Indenture.

“Act” means the provisions of Indiana Code 5-1.5, as from time to time amended.

“Assigned Series 2005 A Qualified Obligations” means those Qualified Obligations issued by the City of Aurora, the City of Logansport, the Town of Medaryville, the Town of Reynolds and the New London Conservancy District and more particularly described in Appendix B hereto.

“Authorized Officer” means the Chairman, Vice Chairman or Executive Director of the Bond Bank or such other person or persons who are duly authorized to act on behalf of the Bond Bank.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended from time to time.

“Beneficial Owner” means any person that has or shares the power, directly or indirectly, to make investment decisions concerning the ownership of any Bonds (including any person holding Bonds through nominees, depositories or other intermediaries).

“Bond Bank” means the Indiana Bond Bank, a public body corporate and politic, not a state agency, but an independent public instrumentality of the State exercising essential public functions, or any successor to its functions.

“Bondholder” or “holder of Bonds” or “owner of Bonds” or any similar term means the registered owner of any Bond.

“Bond Issuance Expense Account” means the account by that name created by the Indenture.

“Bonds” means the Series 2005 A Bonds and any Refunding Bonds.

“Cash Flow Certificate” means a certificate prepared by an accountant or firm of accountants in accordance with the Indenture concerning anticipated Revenues and payments.

“Code” means the Internal Revenue Code of 1986 in effect on the date of issuance of the Series 2005 A Bonds, and the applicable regulations or rulings promulgated or proposed thereunder, and any successor thereto.

“Costs of Issuance” shall mean items of expense payable or reimbursable directly or indirectly by the Bond Bank and related to the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of the Trustee, underwriter's discounts, legal fees and charges, professional consultants' fees, costs of credit ratings, fees and charges for the execution, transportation and safekeeping of the Bonds, bond or reserve fund insurance premiums, credit enhancements (including Credit Facilities) or liquidity facility fees, and other costs, charges and fees in connection with the foregoing.

“Counsel” means an attorney duly admitted to practice law before the highest court of any state and approved by the Bond Bank.

“Credit Facility” means any letter of credit, revolving credit agreement, surety bond, insurance policy or other agreement or instrument.

“Credit Provider” means the issuer of any Credit Facility and its successor in such capacity and their assigns. To qualify under the Indenture, the Credit Provider providing such Credit Facility shall be either:

(i) an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in a rating category that is at least as high as the rating assigned to the Bonds by the rating agency or agencies rating the Bonds; or

(ii) a bank or trust company which at the time of issuance of such Credit Facility has an outstanding, unsecured, uninsured and unguaranteed debt issue rated in a rating category that is at least as high as the rating assigned to the Bonds by the rating agency or agencies rating the Bonds.

“Debt Service Reserve Fund” means the fund by that name created by the Indenture.

“Debt Service Reserve Fund Credit Facility” means any Credit Facility issued or provided by a Credit Provider: (i) which may be deposited in a reserve account in the Debt Service Reserve Fund in lieu of or in partial substitution for cash or investment securities to be on deposit therein, and (ii) which shall be payable (upon the giving of notice as required thereunder) on any due date on which moneys will be required to be withdrawn from such reserve account in which such Credit Facility is deposited and applied to the payment of the principal of or interest on any Bonds.

“Debt Service Reserve Fund Reimbursement Obligation” means any obligation to reimburse the Credit Provider of any Debt Service Reserve Fund Credit Facility for any payment made under such Debt Service Reserve Fund Credit Facility or any other obligation to repay any amounts (including, but not limited to, fees or additional interest) to the Credit Provider.

“Default” means an event or condition, the occurrence of which, with the lapse of time or the giving of notice or both, would become an Event of Default under the Indenture.

“Escrow Account” means the escrow account created under the Escrow Agreement.

“Escrow Agreement” means the Escrow Agreement, dated as of January 1, 2005, by and between the Bond Bank and the Escrow Trustee, providing for the defeasance of the Refunded Bonds.

“Escrow Trustee” means Wells Fargo Bank, N.A., as successor in interest to Norwest Bank Indiana, N.A.

“Event of Default” means any occurrence of an event specified in the Indenture.

“Fees and Charges” means fees and charges established by the Bond Bank from time to time pursuant to the Act which are payable by the Series 2005 A Qualified Entities.

“Fiscal Year” means the twelve-month period from July 1 through the following June 30.

“Funds” means the funds created pursuant to the Indenture, except for the Rebate Fund.

“General Account” means the account by that name created by the Indenture.

“General Fund” means the fund by that name created by the Indenture.

“Governmental Obligations” means (a) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America (“United States Treasury Obligations”), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of

the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

“Indenture” means the Trust Indenture, dated as of January 1, 2005, between the Indiana Bond Bank and U.S. Bank National Association, as trustee, and all supplements and amendments thereto entered into pursuant thereto.

“Interest Payment Date” means any date on which interest is payable on the Bonds.

“Investment Earnings” means earnings and profits (after consideration of any accrued interest paid and/or amortization of premium or discount on the investment) on the moneys in the Funds and Accounts established under the Indenture.

“Notice Address” means, with respect to a Qualified Entity, the Qualified Entity’s address given in connection with the sale of its Qualified Obligations to the Bond Bank, and, with respect to the Bond Bank, the Trustee and the Series 2005 A Bond Insurer:

Bond Bank:	Indiana Bond Bank Attention: Chairman 2980 Market Tower 10 W. Market St. Indianapolis, IN 46204
Trustee:	U.S. Bank National Association Corporate Trust Services 10 West Market Street, Suite 1150 Indianapolis, Indiana 46204
Series 2005 A Bond Insurer:	Financial Security Assurance Inc. 350 Park Avenue New York, NY 10022-6022 Attention: Managing Director - Surveillance

“Opinion of Bond Counsel” means an Opinion of Counsel by a nationally recognized firm experienced in matters relating to the tax exemption for interest payable on obligations of states and their instrumentalities and political subdivisions under federal law and which is acceptable to the Bond Bank and the Trustee.

“Opinion of Counsel” means a written opinion of Counsel addressed to the Trustee, for the benefit of the owners of the Bonds, who may (except as otherwise expressly provided in the Indenture) be Counsel to the Bond Bank or Counsel to the owners of the Bonds and who is acceptable to the Trustee.

“Outstanding” or “Bonds Outstanding” means all Bonds which have been authenticated and delivered by the Trustee under the Indenture, including Bonds held by the Bond Bank, except:

- (1) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;
- (2) Bonds deemed paid under the Indenture; and
- (3) Bonds in lieu of which other Bonds have been authenticated under the Indenture or under any Supplemental Indenture.

“Principal Payment Date” means the maturity date or the mandatory sinking fund redemption date of any Bond.

“Prior Qualified Obligations” means those qualified obligations issued by certain Series 2005 A Qualified Entities, the call rights of which are being acquired by the Bond Bank with a portion of the proceeds of the Series 2005 A Bonds, and which shall no longer be outstanding and shall be deemed refunded upon the issuance of the Assigned Series 2005 A Qualified Obligations and the delivery thereof to the Bond Bank.

“Program” means the program for purchasing Qualified Obligations by the Bond Bank pursuant to the Act.

“Program Expenses” means all of the fees and expenses of the Trustee and costs of determining the amount rebatable, if any, to the United States of America under the Indenture, all to the extent properly allocable to the Program.

“Purchase Agreement” means a Qualified Entity Purchase Agreement between the Bond Bank and a Qualified Entity, pursuant to which one or more Qualified Obligations are sold to the Bond Bank.

“Purchased Series 2005 A Qualified Obligations” means those Qualified Obligations issued by the Town of Danville, the Town of Centerville, the City of Beech Grove and the Eastern Bartholomew Regional Sewage District and more particularly described in Appendix B hereto.

“Qualified Entity” means an entity defined in IC 5-1.5-1-8, as amended from time to time, including the Series 2005 A Qualified Entities.

“Qualified Obligation” means a Security (as that term is defined in the Act), including the Series 2005 A Qualified Obligations, which has been acquired by the Bond Bank pursuant to the Indenture.

“Qualified Obligation Interest Payment” means that portion of a Qualified Obligation Payment which represents the interest due or to become due on a Qualified Obligation held by the Trustee pursuant to the Indenture.

“Qualified Obligation Payment” means the amounts paid or required to be paid, from time to time, for principal of and interest on a Qualified Obligation held by the Trustee pursuant to the Indenture.

“Qualified Obligation Principal Payment” means that portion of a Qualified Obligation Payment which represents the principal due or to become due on a Qualified Obligation held by the Trustee pursuant to the Indenture.

“Rebate Fund” means the fund by that name created by the Indenture.

“Record Date” means, with respect to any Interest Payment Date, the fifteenth day of the calendar month immediately preceding such Interest Payment Date.

“Redemption Account” means the account by that name created by the Indenture.

“Redemption Price” means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption prior to maturity.

“Refunded Bonds” means the Indiana Bond Bank Special Program Bonds, Series 1995 A, dated as of October 1, 1995, originally issued in the aggregate principal amount of \$4,540,000 and currently outstanding in the aggregate principal amount of \$3,300,000.

“Refunding Bonds” means Bonds issued pursuant to the Indenture and any Supplemental Indenture.

“Reserve Requirement” means an amount equal to the least of (i) 10% of the stated principal amount of the Bonds; provided, however, if any Series of Bonds has more than a de minimus amount of original issue discount or premium, the issue price of such Series of Bonds (net of preissuance accrued interest) shall be used to measure the 10% limitation in lieu of such Series’ stated principal amount; (ii) the maximum annual principal and interest requirements on the Bonds; or (iii) 125% of average annual principal and interest requirements on the Bonds. At the time of issuance of the Series 2005 A Bonds, the Reserve Requirement means an amount equal to \$1,212,443.76,

and thereafter, if less than such amount, shall be the maximum annual principal and interest requirements on the Outstanding Bonds in the then current or any succeeding Fiscal Year.

“Revenues” means the Funds and Accounts and all income, revenues and profits of the Funds and Accounts referred to in the granting clauses of the Indenture, including, without limitation, all Qualified Obligation Payments.

“S&P” means Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, or any successor thereto.

“Series of Bonds” or “Bonds of a Series” or “Series” or words of similar meaning means any Series of Bonds authorized by the Indenture or by a Supplemental Indenture.

“Series 2005 A Bond Insurance Policy” means the insurance policy issued by the Series 2005 A Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Series 2005 A Bonds when due.

“Series 2005 A Bond Insurer” means Financial Security Assurance Inc.

“Series 2005 A Bonds” means the Indiana Bond Bank Special Program Bonds, Series 2005 A, issued pursuant to the Indenture.

“Series 2005 A Qualified Entities” means, collectively, the Town of Danville, the Town of Centerville, the City of Aurora, the City of Beech Grove, Eastern Bartholomew Regional Sewage District, the City of Logansport, the Town of Medaryville, the Town of Reynolds and the New London Conservancy District.

“Series 2005 A Qualified Obligations” means, collectively, the Assigned Series 2005 A Qualified Obligations and the Purchased Series 2005 A Qualified Obligations.

“State” means the State of Indiana.

“Supplemental Indenture” means an indenture supplemental to or amendatory of the Indenture, executed by the Bond Bank and the Trustee in accordance with the Indenture.

“Trustee” means U.S. Bank National Association, a national banking association, with a corporate trust office located in Indianapolis, Indiana, or any successor thereto under the Indenture.

“Trust Estate” means the property, rights, and amounts pledged and assigned to the Trustee pursuant to the granting clauses of the Indenture.

“Underwriter” means NatCity Investments, Inc.

APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee"), or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

APPENDIX G

SPECIMEN DEBT SERVICE RESERVE FUND CREDIT FACILITY

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**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY

ISSUER:

Policy No.: -R

BONDS:

Effective Date:

Premium:

Termination Date:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") as set forth in the documentation (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Security will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy. Upon such payment, Financial Security shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to Financial Security by or on behalf of the Issuer. Within three Business Days of such reimbursement, Financial Security shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall Financial Security incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that Financial Security has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Insurance Agreement" means the Insurance

Agreement dated as of the effective date hereof in respect of this Policy, as the same may be amended or supplemented from time to time. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail from the Issuer, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed \$[21]. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud) whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be cancelled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 501 NY (6/90)